

# SCOTTISH CHAPTER

- 1 ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY OF SMART, SUSTAINABLE AND INCLUSIVE GROWTH AS WELL AS THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL AND TERRITORIAL COHESION (ARTICLE 15(1) (A) CPR)
  1. Scotland embraces the vision of the EU Regulations for Regional Policy 2014-202 and its strong focus on achieving growth and jobs. Our ambition is that this Scottish Partnership Agreement directly supports the Scottish Government's wider aspiration to deliver sustainable economic growth for all in Scotland.
  2. In the period from 2014-20 the **Scottish approach** to getting the greatest impact from the European Structural and Investment Funds is based on 7 key principles. The approach sees the fundamental purpose of the funds as securing **structural reforms** which will facilitate sustainable economic growth and create a more innovative and inclusive society.
  3. ESIF will be deployed alongside many other, and larger, public and private funds which will also influence structural reforms, therefore the Scottish approach is to identify the "**best niche for ESIF**" within the wider funding and investment environment. Within the ESIF niche, **alignment** and **strategic concentration** of funds and investment will be key to achieving the greatest impact and complementarity between interventions.
  4. The Scottish approach responds to important practical considerations - territorial challenges, simplification of implementation, and the capability of beneficiaries.
  5. Scotland's territories bring diverse challenges whether rural, coastal, urban, sparsely populated, remote and peripheral, areas of prosperity, or areas of disadvantage. The Scottish approach recognises that where strategic thematic interventions will not address some **territorial challenges**, tailored interventions will be necessary to ensure balanced programmes of interventions achieve the greatest impact.
  6. **Simplifying implementation** depends on establishing programmes around strategic interventions which can be match funded and are most likely to achieve ambitious outcomes. It also depends on **funding beneficiaries that have the capability and capacity** to manage interventions in compliance with audit and implementing regulations.
- 1.1 An analysis of disparities, development needs, and growth potentials with reference to the thematic objectives and the territorial challenges

## Macro-Economic Performance

1. Scotland has seen welcome improvements to the employment and economic picture over 2013. The most recent data for the Scottish economy showed growth of 0.7% in the third quarter of 2013. This followed an increase of 0.6% and 0.4% in Q2 and Q1 2013 respectively, and marks four consecutive quarters of growth, and annual growth of 2.2%.
2. Revised UK data also confirms earlier findings that Scotland had a less severe recession than the UK as a whole and is closer to pre-recession levels of output, although both countries remain below pre-recession levels -0.9% for Scotland and -1.9% for the UK. With output growing over the year, and with growth forecast to be stronger

next year, Scotland is expected to move beyond 2008 pre-recession levels of output during 2014. Consumption has been the key driver of the recovery, and this trend is forecast to continue in 2014. If the recovery is to be sustained into the medium term however, increased competitiveness will be key with private sector investment and external trade needing to contribute more to the overall balance of growth.

3. 2013 has seen a continued improvement in the labour market, particularly when compared to one year ago. Employment is up, driven by a rise in full-time employment, and economic inactivity and unemployment are down, indicating a positive direction of travel in terms of Scotland's labour market recovery, and highlighting the adaptability and high level of skills within the Scottish workforce as key strengths to build on. Nevertheless, fragility is likely to remain as long as growth is consumption- rather than investment driven, as a sustained recovery will depend on continued economic growth driving increased demand for labour.
4. There has been a fall in youth unemployment over the year with Scotland's youth unemployment rate, as measured by the International Labour Office (ILO) rate, comparing favourably to that of the UK and other European countries. However, youth employment continues to be heavily concentrated in South West Scotland; as does long-term unemployment. One of the most significant long-term threats to sustainable growth in Scotland is now the loss of skills due to those unemployment trends.
5. Despite this recent positive performance, after 5 years of global financial turmoil, Scotland is not without its economic challenges. Public and private spending levels are lower and the ability to stimulate markets therefore decreased. The unemployment rate, 6.4 % over the 3-month period between September and November 2013, is substantially above its level five years prior to the recession (4.9 per cent). Real GDP remains below its pre-crisis peak level. Real wages in the economy have declined by 8% since the recession, and this, alongside the higher rates of unemployment, have contributed to a decline in people's living standards, particularly in areas with high levels of deprivation. Scotland, like the UK, also remains below the EU average productivity levels.
6. To boost and support the recent recovery, Scotland will focus the ESI Funds on addressing specific challenges and opportunities aligned to the EU 2020 agenda, and Scotland's Smart Specialisation Strategy, as set out below.

#### 1.1.1 Smart Growth

### **STRENGTHENING RESEARCH, TECHNOLOGICAL DEVELOPMENT AND INNOVATION**

7. Scotland is home to five of the world's top 200 Universities (2013), and has an excellent reputation for research. Spending on Higher Education Research and Development (HERD) in Scotland remains world class with Scotland coming top within the UK's regions and nations and third amongst those OECD countries for which the most recent data was available. Recent policy initiatives to invest in Innovation Centres continue this trend.
8. Commercialisation of that research, and business engagement with R&D&I, lags behind that excellent academic performance. Scotland's overall R&D rates, corresponding to 1.56% of GDP, is significantly behind EU 2020 targets and lower than the UK's. Only 0.52% of that is private sector investment (BERD), and 60% of that relies on a few large companies in sectors like aerospace and pharmaceuticals.
9. Of Scotland's approximately 300,000 SMEs, only 3-4,000 are estimated to be 'innovation active'. The UK Innovation Survey highlights specific constraints to

innovation as cost factors (in particular, the availability and cost of finance and the direct cost of innovation) and perceived economic risks. UK-level data indicates that SMEs are more likely than large firms to rate these constraints as highly important. In Scotland, those engaged in innovation activity were over three times as likely to perceive cost factors as barriers than businesses that did not innovate. This suggests that businesses learn about barriers to innovation as a result of their attempts to innovate, and that both the system and the appetite to take such risks needs to be improved.

10. Innovation and research interventions in Scotland tend to fall on the supply side, focusing on high-end academic research and spin-offs rather than engaging with and assisting companies. Those interventions which do target companies tend to target existing innovation-active businesses rather than seeking to engage new ones, or removing the perceived innovation barriers for existing players.
11. To deliver **structural reform** in this area, the main weakness to address is therefore demand for innovation, getting companies interested in investing in themselves. The **best niche** for the funds is therefore likely to be a shift away from supporting new research towards demonstrating, commercialising and applying it to achieve higher growth, better environmental protection, and long-term sustainable and innovative businesses. For ERDF, this will still require an element of supporting academic institutions in sharing their expert knowledge through centres of excellence, as well as support for SME's to engage with innovation. In some regions, there may also be a residual need to boost innovation capacity in parallel with linking this better to businesses.
12. All these elements will be focused using Scotland's Smart Specialisation Strategy (the Government Economic Strategy), which focuses on growth sectors, growth companies and growth markets. The key sectors for innovation and development are:
  - Creative industries – in a wide cultural sense, in sub specific sectors such as broadcasting or games, and increasingly in data storage, data mining and infomatics
  - Energy – research into technology and engineering, test facilities, manufacture installation and supply chain, and distribution
  - Financial services – particularly focused in city centres, and dependent on both quality of life to attract talent, and high levels of connectivity
  - Food and Drink – particularly value added markets reliant on high quality of nature, but also processing and packaging, this is a key sector in rural Scotland
  - Life Sciences – currently clustered near university and research facilities, and with high expansion and export opportunities in e-health (including capitalising on the Innovation Partnership on Active and Healthy Ageing) and animal health/sustainable agriculture
  - Tourism – with opportunities in nature and heritage, business tourism, major events (with three international events in 2014 alone) and destination towns and cities
13. The assets in each of the sectors are unevenly distributed across Scotland, but collectively offer targeted opportunities in a wide range of locations. By understanding what companies need to grow in each of the sectors, we can target differentiated interventions on:
  - locations offering the best mix of assets,
  - locations where development of new assets would make the biggest difference
  - locations which we need to connect more effectively to areas of opportunity
14. Scotland's rural, coastal and marine areas must also take advantage of the strong performance in research and development and ensure that the learning can be

transferred to deliver improvement. The Scottish Government currently invests more than £70 million per year on high quality research in rural and environment as part of its Strategic Research Programme and other domestic spend. EAFRD will add to this, providing a route for clusters, networks, and operational groups of interested parties to come together to develop new ways of working based on this rich resource. This will link in with the EIP on Agricultural Productivity to ensure learning can be transferred into Scotland from across the EU, and across the EU from Scotland.

15. Under the new Rural Development Programme Scotland is taking forward a dedicated scheme which will build on the success of the previous programme in order to translate innovative approaches into agricultural and land management practice to promote:

- Knowledge transfer and innovation
- Enhanced competitiveness
- Restoring, preserving and enhancing ecosystems
- Resource efficiency and shift to low carbon climate resistant economy

16. This approach will be aligned with the European Innovation Partnership (EIP) for agriculture productivity and sustainability. This will help fill gaps by better linking research and practical farming and ensure learning from across Europe can be translated into innovative projects in Scotland, and learning from Scotland available to farmers and land managers in Europe through the EAFRD Advisory Service and the Scottish Rural Network.

17. In the case of innovation in the marine, fisheries and aquaculture sectors support is expected to act in three ways: first to establish technical/economic feasibility through research, investigations and pilot-scale work, secondly through dissemination/education, and thirdly through direct traditional intervention with individual operators, i.e. supporting them to install the innovation on a commercial scale.

## **ENHANCING ACCESS TO, AND USE AND QUALITY OF, ICT**

18. Although next generation broadband availability has increased across the UK, the geography and dispersed population of much of rural and remote Scotland means that, even after significant public subsidy including ERDF funding, a significant proportion of the country lies beyond the current reach or plans of commercial infrastructure providers. This problem is most acute in areas such as Aberdeenshire (where 10.6% of premises will remain without next generation access after current planned commercial and public investment), Orkney (25%), Perth & Kinross (10%) and Western Isles (30%). Ofcom data also indicates that 10 per cent of fixed broadband lines in Scotland achieved average download speeds of less than 2 mbps in 2012.<sup>1</sup>

19. The areas that remain will be amongst the most challenging to connect in the whole of Europe. The rugged terrain and dispersed population across much of rural Scotland presents unique communications challenges and there is no prospect of these areas being connected to fibre infrastructure by market mechanisms, without additional public subsidy. To add to the complexity, these areas are scattered across Scotland, with gaps in coverage from Shetland to the Scottish Borders (see map below). Coverage in the Highlands and Islands will only reach 84% on the basis of current plans.

20. The cost of infrastructure deployment increases substantially in rural areas. In addition, the cost of deploying superfast broadband to areas with relatively few users, often including business parks and other areas with predominantly business users, often

---

<sup>1</sup> Ofcom, 2012, Infrastructure Report: 2012 Update.

<http://d2a9983j4okwzn.cloudfront.net/downloads/ofcom-uk-broadband-speed-report-2012.pdf>.

outweighs the potential revenues, yet the economic benefits from extending coverage to these areas are extensive. Recent research undertaken by SQW on behalf of the UK Government has concluded that the public investment in superfast broadband in the UK will deliver significant economic benefits, as well as supporting innovation and greater small business competitiveness. Benefits include net economic impact of £20 for every £1 invested; long term productivity growth; a short term boost to jobs and the economy through construction work; and monetary savings to households and carbon emissions savings from reduced travel requirements.

21. The high level of return largely derives from the fact that broadband is a General Purpose Technology which has an increasingly critical role in the day-to-day operations of the majority of UK businesses and services. The public sector interventions are substantially improving the quality of this technology across a significant proportion of the UK, which, in the long term, will benefit hundreds of thousands of businesses, employing millions of people. By contrast, lack of access restricts business growth in key sectors such as renewable energy and food and drink, and restricts the development of digital skills amongst all sections of society. These areas have an ageing population and widespread digital connectivity and skills development is therefore critical to the cost effective delivery of healthcare and other services upon which local communities depend.
22. Reflecting the significant enabling role of ICT, the Scottish Government and partners are making a significant investment through our Step Change programme to extend broadband infrastructure to non-commercial areas. The Step Change programme is based on a gap funding model, where the public subsidy provided is only to the level which is required to make the investment viable to the private sector. The European Commission has given State aid approval for the UK's approach through its decision on the National Broadband Scheme for the UK. In its approval decision the Commission made the following points (paras 76 to 78):
23. 'As explained in section (7), the scheme is fully in line with both the National Broadband Strategy of the UK and the EU objectives as highlighted in the EU2020 strategy and the DAE, which has the "aim to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra-fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more European households subscribing to internet connections above 100 Mbps". The project will contribute to avoid the digital divide in services which require very high speed broadband connection, between "final third" areas and urban areas that may benefit from competition of at least two competing infrastructure.'
24. Infrastructure investment alone will not achieve all the aims of the Agenda, and so business usage and exploitation of digital technology will be addressed through Increasing SME Competitiveness; and through Education, Skills and Lifelong Learning to develop both Scotland's high-growth ICT sector and the general skills which all businesses will require to engage with digital opportunities. Personal usage to access services and engage with e.g. employment opportunities remains a significant issue (digital exclusion), corresponding heavily with areas of other forms of social exclusion and deprivation; and with Scotland's demographics, with the population aged over 30 significantly more affected. This will be addressed through initiatives under Labour Market Mobility and Social Inclusion and Combating Poverty.

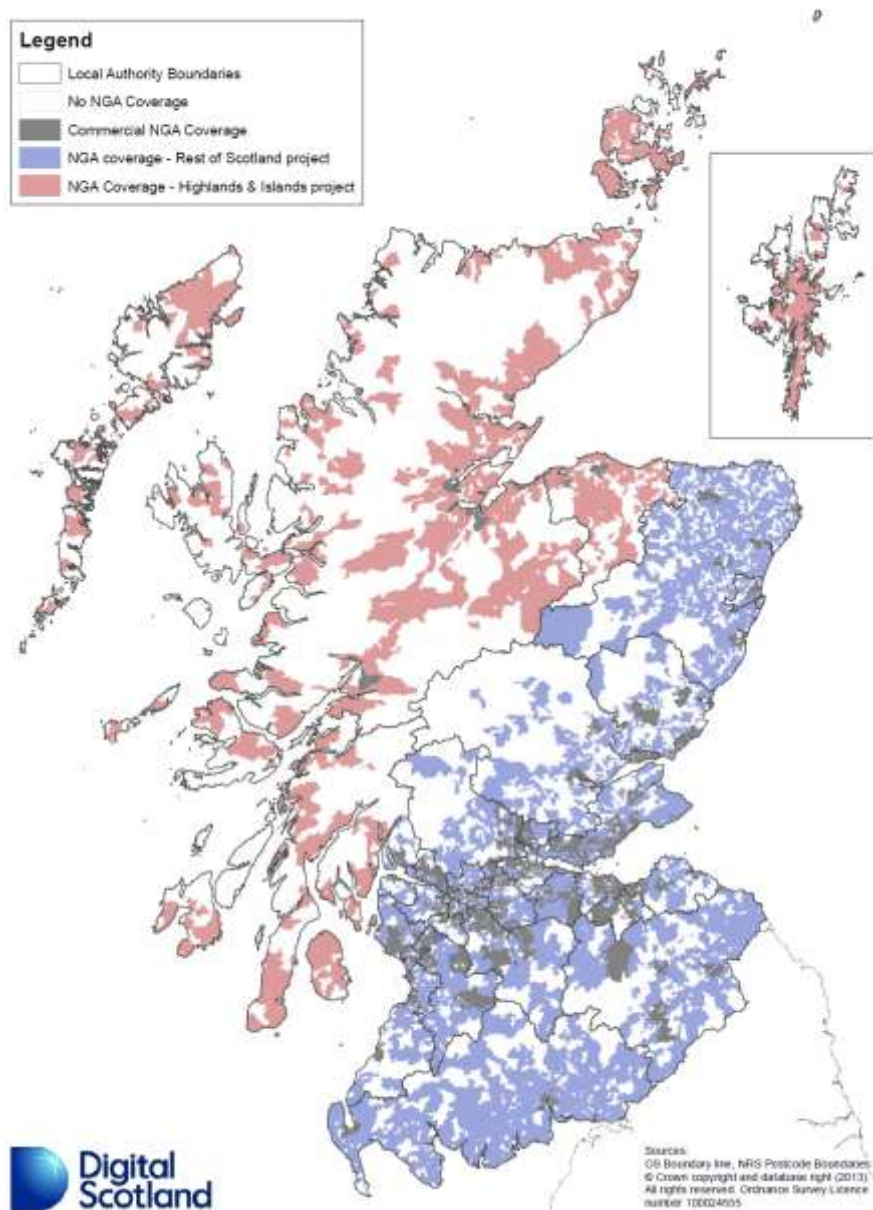


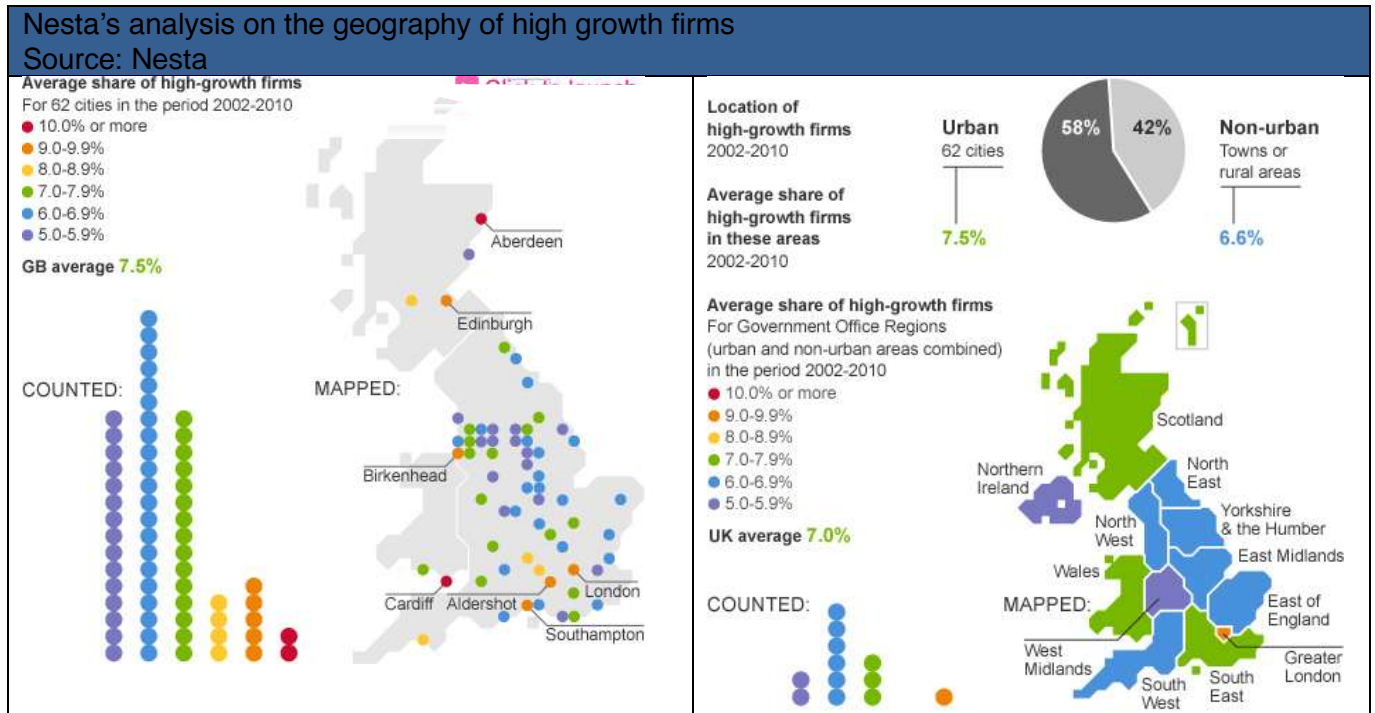
Figure 1: Projected NGA coverage: Scotland

## ENHANCING THE COMPETITIVENESS OF SMEs

25. Scotland has a lower business stock than the UK as a whole; an historical trend that persists in 2013. Recent increases have been driven by substantial growth in unregistered businesses, and whilst this may be indicative of a rise in entrepreneurship in Scotland, it is more likely to be reflective of the impact of poor economic conditions on other work choices. Business survival rates are also lower than those of the UK, and evidence from a range of sources suggests that Scottish SMEs either lack, or have downgraded, their growth ambitions.
26. Scotland's economy is dominated by SMEs, with 99% of businesses having less than 249 employees (albeit with higher concentrations of small and micro businesses in rural areas than in cities); with a high number of micro, small and medium enterprises are 'steady state' with limited capacity for growth.



27. High-growth firms are receiving increasing policy importance. Work by Nesta, an independent charity which promotes innovation in the UK, has found that high-growth firms make up 7% of all UK firms but account for a disproportionate share of job creation<sup>2</sup>. Over the three periods since 2002, the average share of high-growth firms is above five per cent in all the cities considered in their analysis. As the map below shows, of the four Scottish cities included within this analysis, Aberdeen and Edinburgh perform particularly well in comparison with other cities within the UK. Further analysis by Nesta found that 40% of UK high growth firms are located outwith cities; a figure which is relatively stable over time, and confirms that high-growth firms can emerge both in big cities and small villages.



**Figure 2: Nesta's analysis on the geography of high growth firms**  
Source: Nesta

28. A clear focus for the ESI Funds therefore needs to be assisting businesses and entrepreneurial individuals recognise and achieve their start up and growth potential, and further analysis shows four likely areas of focus.

- *Entrepreneurialism and leadership*: key bottlenecks remain in the entrepreneurial system around the current level of participation in post-secondary education among young adults (18-22), the level of internet usage, and Gross Expenditure in Research and Development (GERD). These show the clear need to link activity under this thematic objective to both RTDI (thematic objective 1) and Skills development (thematic objective 10).
- *Exporting and internationalisation*: Scotland's export are growing, and are a well-recognised path to company growth. However, data from the Small Business Survey shows that only 13 per cent of SMEs in Scotland in 2012 were exporters, down from 16 per cent in 2007.<sup>3</sup>

<sup>2</sup> Note: there are differences in the time periods and methodologies used between the SE and Nesta studies.

<sup>3</sup> Scottish Government, 2012, Small Business Survey Report 2012.

<http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012>. In this survey, an exporter is defined as a business which sold goods or services or licenced products outside of the UK.

- *Access to finance:* The prolonged economic downturn has meant a lack of finance available for business at appropriate risk levels. Despite improvements in 2012, the most recent evidence from the Bank of England suggesting that credit conditions remain constrained in the economy, particularly for small enterprises. Scotland has good experience with access to finance through Financial Instruments, and is likely to build on these to continue to support SME start up growth aspirations.
  - *Digital Exploitation:* Although both the Small Business Survey and a 2010 SG Survey shows SME's increasingly accessing and being connected to broadband, a recent report by Lloyds Banking Group<sup>4</sup> found that over a third (37 per cent) of UK SMEs do not have a website and that one in five (20 per cent) are 'deliberately disconnected' from the internet. Digitalisation has concrete benefits for business, including time savings, attracting more customers, increased marketing effectiveness, cost savings and an increase in sales.
29. Current support for SMEs is fragmented. It is often provided by sector, or focused on relatively generic/basic advice and sign-posting or specialist support for companies who are already high growth. ERDF will **focus** on bridging this gap. The approach will involve all relevant agencies in offering a stream-lined set of support to a business focused on the four areas above, with an explicit aim of identifying and promoting the next generation of high-growth companies in Scotland, in particular focusing on those which could achieve growth in the next five years, and on increasing the number of Scottish SME's which are 'born global'.
30. As with Innovation, this approach to helping SME's achieve their growth potential will follow the Smart Specialisation Strategy, focusing in on the key national and regional sectors identified as part of the Government Economic Strategy. A strong local dimension, through the use of existing and recognised business services, will ensure that local employability support and training are linked to increasing employment opportunities within assisted SMEs. The support will also be aligned to any Financial Instruments aimed at increasing access to finance for business.
31. It is important to recognise that even those businesses which are not the dynamic growth companies of tomorrow can be important to sustaining local communities and play a vital role within the supply chain. EAFRD will look to ensure that new and existing small and micro rural businesses have the opportunity to access business development finance. This offers an opportunity for the funds to **align**, ensuring that any SME anywhere in Scotland has access to a targeted source of funding to help it sustain, diversify or grow.
32. EAFRD will continue to support farming businesses to modernise and become more competitive with a particular focus on helping new entrants to support generational renewal. The Crofting sector is unique to Scotland and is a vital component of our social heritage. EAFRD will provide support to crofters to take forward improvements on their crofts which will help to sustain their business and enable cooperative working. EAFRD will also seek to support small-scale investments on small farms to help them modernise and adapt to changing conditions.
33. Whilst EMFF will support the modernisation of the significant numbers of fishery-based businesses in Scottish waters there will also be the need to ensure that the delivery of CFP reform and new management practices do not negatively impact on their viability. Support will therefore be required to ensure that businesses, both in the fisheries and aquaculture sectors, continue to be competitive and that the Fishing Communities they serve continue to thrive. As with the rural sector, smaller and locally-based businesses

---

<sup>4</sup> Further details at: <http://businesshelp.lloydstsbusiness.com/assets/pdf/Britains-Digital-Opportunity.pdf>



in the marine sector can be important to sustaining local communities and play a vital role within the supply chain, including in developing areas such as sea based tourism; and aquaculture, as part of the food and drink sector, has significant growth potential if managed well. EMFF will in addition look to ensure that new and existing business have the ability to access development finance including the use of Financial Instruments which where possible will be aligned with other ESI Fund Financial instruments. SME's can also benefit from the wealth of expertise and knowledge that is available from larger companies and the EMFF will support the exchange of such knowledge through collaboration and innovation projects.

34. Finally, the environment in which businesses operate and innovate is as important as providing direct support. Scotland's cities offer a significant concentration of businesses, human capital, entrepreneurs and connections; and are situated closely enough together to act as a single and larger-scale draw for investment and competitiveness – particularly if they become better connected and more interoperable. ERDF will support the development of a SMART cities approach, testing new technology, data and systems sharing for better city management. This will for a significant part of Scotland's contribution towards the 'sustainable urban development' theme, making Scotland's cities both more environmentally sustainable and more attractive places to invest.

## **INVESTING IN EDUCATION, TRAINING AND VOCATIONAL TRAINING FOR SKILLS AND LIFELONG LEARNING**

35. Scotland is in a very strong position regarding Europe 2020 targets on 30-34 year old educational attainment, with 50% currently reaching tertiary levels of education and supporting the excellent reputation of the educational sector in Scotland. However, 14% currently leave school early, and there is a decline in the percentage of 18-24 year olds gaining at least upper secondary level education, with 23% of the population holding no educational or skill qualifications at this level.
36. This means there is a **structural gap** between those who are highly skilled, such as graduates and the qualified professions, and those with low or no skills. Employment outcomes are linked to this, ranging from 84% for those with tertiary education; to just 41% for unqualified individuals.
37. Employment projections highlight further emerging challenges and opportunities, but in particular a continued decline in primary sector employment impacting on Scotland's rural areas, juxtaposed against the significant employment potential in knowledge-intensive emerging industries such as renewable energy, life sciences, chemicals, and food and drink sectors, drawn out in the Smart Specialisation Strategy. It also presents a social challenge in ensuring that everyone has an increased likelihood of participating in such a higher value-added economy.
38. The vision is that high and increasing skill levels in the workforce drive increased productivity and growth, higher real wages and long-term social mobility across Scotland. That means our prospects for sustainable growth will be driven by a world-class higher education system and a skilled workforce. The vision is backed by the development of a high quality intermediate vocational education and training which delivers the skills employers need; and gradually reduces the need for social inclusion interventions.
39. To address these challenges, and to **complement** activity under Labour Market mobility and Social inclusion, the **strategic concentration** under this thematic objective will be on the post 16 sector to meet future skills requirements; and on existing workforce development to increase productivity and resilience. The Wood Commission, an

extensive national investigation of post-16 skills provisions, has recommended an increase in higher-level vocational and technical education, for example through specific sectoral academies playing to regional strengths as part of Smart Specialisation, as well as advanced and increased apprenticeship provision, and better links between education and work. It is anticipated that ESF will support both individuals progressing through high and combined vocational/academic training, and the **significant structural change** which will be required in course development and employer engagement. The combination should make a significant structural contribution to reducing youth unemployment in future generations.

40. Skills development is another example of the possibilities of **alignment** between the ESI Funds, and integration across the thematic objectives. Sectors which are traditionally helped through EAFRD or EMFF, such as land management, food and drink, forestry, aquaculture and fisheries offer opportunities for vocational placements as much as sectors traditionally supported through ERDF, such as innovation or renewable energy; and specific skills will be required to support Scottish ambitions under resource efficiency and low carbon. Workforce development support under ESF is therefore also linked to the Smart Specialisation strategy through tailoring regional skills provision to those future sectoral needs.
41. In addition to developing the future workforce, lifelong learning in the existing workforce also has a huge role to play in moving Scotland from a heritage of primary production, heavy industry and service sectors into a more balanced economy. Labour Force Survey results show the proportion of individual in employment receiving job-related training within the last 3 months has remained steady at around 28% since 2007. There is a clear role for ESF in **focusing** on and developing plans to address the skills requirements within business and industry, and in gaining employer engagement with upskilling their employees as part of the business planning and development.
42. EAFRD will contribute to knowledge exchange and development of better land management skills to help improve performance and to reduce emissions. There will be a focus on non-formal qualifications, providing funding for skills development and knowledge transfer initiatives in the form of workshops, training courses, coaching, demonstration activities, information actions and farm visits. LEADER will also play a part in the provision of skills to groups within local communities, where the LDS has identified this as a need.
43. EMFF will contribute to lifelong learning and the dissemination of knowledge of an economic, technical, regulatory or scientific nature which will deliver innovative practices and new professional skills. In particular these will be linked to marine ecosystems, safety, innovation, entrepreneurship and activities in the marine sector, as well as encouragement for younger entrants into the sector and for those who seek to diversify out of the sector.

### 1.1.2 Sustainable Growth

## LOW CARBON ECONOMY

44. The wider low carbon economy is a key priority for growth in the Government Economic Strategy, and it is estimated that jobs within the low carbon sector could grow by 4% a year to 2020 rising from 70,000 to 130,000 (over 5% of the Scottish workforce). Scotland has a significant opportunity to build on its expertise in off-shore energy, focusing on renewable resources; and this has the potential to create new industries and jobs in areas which are remote, rural and coastal; and offers scope for diversification in, for example, sea fisheries dependent areas. This opportunity encompasses supply chain development as well, strengthening SME competitiveness.

45. Energy consumption per capita is higher in Scotland than in other parts of the UK. This is primarily due to two factors: Scotland's relatively high consumption in the industrial and commercial sector (43.5% of energy consumption in 2010), and higher domestic energy consumption (31%) - which is due in part to the colder and wetter climate. Transport accounts for 25.5% of energy consumption. This poses a challenge for sustainable development, as growth traditionally links to a growth in emissions, and to achieve a low carbon economy, this needs to be de-coupled. This is a focus both for developing the low carbon economy and for promoting resource efficiency, and will make a substantial contribution to climate change mitigation.
46. To achieve this, Scotland has set itself ambitious targets for renewable energy and greenhouse gas emissions including:
- to deliver the equivalent of 100 per cent of gross consumption through renewable sources in 2020, with an interim target of 50 per cent by 2015
  - a reduction in greenhouse gas emissions of at least 80% by 2050, with an interim 42% reduction target by 2020, compared to a 1990 baseline
47. These ambitions exceed EU 2020 targets, reflected in Scotland's current performance against those targets: 24.3% reduction in greenhouse gas emissions, and 24.1% of electricity requirements met from renewable sources, a figure which has nearly trebled in ten years.
48. Scotland's scope for developing and supplying renewable energy is significant – the practical offshore renewables resource has been estimated at 206 GW<sup>5</sup>, a quarter of European off-shore potential and 10% of its wave power potential. By harnessing just a third of this resource, installed offshore renewables capacity could reach 68 GW by 2050 - more than ten times Scotland's peak electricity demand. Around 20% of the electricity generated in Scotland is exported to the rest of the UK, but with investment this could rise significantly. Scotland is therefore well positioned to develop and achieve 'blue growth' in parallel with and as part of overall renewables growth.
49. Low carbon is of course wider than electricity generation, and combined heat and power, and energy efficiency (in processes and products as well as in buildings) are areas where Scotland needs to improve over time, for example through supply chain development, and development of low carbon and environmentally friendly products in line with increasing consumer expectations.
50. With many other significant sources of funding available, and with a recognised gap between the project concept and realisation, there is a **specific niche** around culture change; developing and supporting a project pipeline into robust proposals for investment, and enabling higher-risk products and services to develop, with investment support potentially through financial instruments. In the long term, this kind of investment would then be seen as increasingly normal and less risky. Integrating aquaculture with offshore renewables, scaling up CHP and using new technologies for it, and pilot scale studies into marine algal biomass production (which is being investigated as part of the development of Scotland's first Marine Plan) are good examples of higher-risk projects which could be supported through ERDF and EMFF.
51. Scotland does not propose to invest in Promoting Sustainable Transport as a separate thematic objective. However, there is a need to address the challenges Scotland's geography presents for low-carbon transport, in particular encouraging a structural and behavioural change in two areas. The first is a modal shift. Cars, vans and lorries account for the vast majority of miles travelled per year per Scottish resident. In 2011, 11.2 % of driver journeys were delayed due to congestion. And the proportion of adults

---

<sup>5</sup> The Offshore Valuation Group (2010), The Offshore Valuation. <http://www.offshorevaluation.org/>

in Scotland usually travelling to work by public transport or active transport (such as walking or cycling) has remained broadly stable at around just 10% over the past decade. ESI Funds will support modal shifts through linking different local modes of active and low carbon transport particularly in urban areas, and better use of technology and integrated ticketing and information to encourage use of public transport.

52. The second change is in how transport is powered. With transport one of the main CO<sub>2</sub> and particle emitters in Scotland, supporting the long-term development and testing of low-carbon energy sources for transport, and the infrastructure required to support it, is a priority. However, this is a relatively undeveloped area, with emerging technologies competing and risks for investors in picking the 'wrong' technology therefore very high. ESI Funds will support pilot projects for mixed low-carbon refuelling services, along areas to test the right energy source mix for an increasing number of sustainable connections between the places where people want to live, work and do business. This kind of project will only be supported where there is clear market failure, and will no longer be supported when and if it reaches commercial viability.

## **PROTECTING THE ENVIRONMENT AND PROMOTING RESOURCE EFFICIENCY**

53. High-value nature (land and marine) is an intrinsic and valuable part of Scotland's brand, contributing to tourism and high quality food and drink sectors, making Scotland an attractive place to live and work; as well as bringing health benefits through bio-diversity and a safe and secure food supply.

54. With 75% of Scotland's land in agricultural use, the sector has the potential to have a significant impact on the quality of the environment. The European Agricultural Fund for Rural Development will continue its significant **strategic concentration** on high-value nature, bio-diversity, and improved practices to lower the environmental impact of farming in Scotland, including support for an integrated and ecosystem approach to land management via increased co-operation and the provision of an advisory service to help drive improvements. This will build on the increased environmental benefits gained through greening of Pillar 1 of the CAP, and will include:

- *Peatland Restoration and Afforestation initiatives*, a significant rural contributor to the Scottish Governments efforts to reduce Scotland's carbon footprint in order to mitigate the impact of Climate Change, to assist biodiversity and water quality goals, and to tackle soil erosion. Forestry is also a significant contributor to the rural economy in terms of business presence and employment
- *Water quality improvements* in line with the Water Framework Directive and the associated target to ensure that 92% of water bodies are in good ecological condition by 2027 (currently 61%), particularly addressing diffuse pollution arising from agricultural operations through poor storage, pesticide usage, livestock contamination and excessive run-off, and targeted at Nitrate Vulnerable Zones as a priority, and in line with Scotland's River Basin Management Plans.
- *Promoting increased bio-diversity*, where a whole range of indicators shows urgent action is required, with declines in the abundance of breeding birds over the past three years, plant species diversity (10% decline), 44% of ecosystem services delivered by Scottish habitats being in decline (compared with 30% across the UK), the rate of designated sites in favourable condition remain static at 78%, and more priority farmland habitats in conservation status declining than improving. This will require incentivisation of farmers to adopt habitat-friendly management practices, and there will be a focus on Natura 2000 sites and Sites of Special Scientific Interest.

55. The combination of forestry and agri-environmental initiatives will more than meet the EAFRD ring-fence of 30% towards this thematic objective, amounting to 45% of the Scotland Rural Development Programme.
56. Scotland has a large percentage of land that is not favoured for most forms of agriculture, with around 85% being classed as LFA. This will remain a key aspect of the future programme as it is vital that we adequately support fragile farming businesses in rural areas. This will help to reduce the risk of land abandonment, with the resulting social and environmental issues that would cause.
57. Scotland also has large, diverse and productive marine resources, producing the great majority of the UK's seafood and maintaining a traditional industry important in many coastal areas of Scotland – all whilst maintaining a close focus on biodiversity, sustainability, and obligations under national and international legal instruments including the Maritime Framework Strategy Directive. Maintenance of a significant and truly sustainable fisheries sector (including aquaculture and processing) is the long term goal, one which faces challenges relating to the health of wild fish stocks, but also in relation to specific aspects of aquaculture and processing. The commercial fisheries sector will undertake transition in the coming years as CFP reform delivers MSY, removal of discards and improved management. This will have an impact on all sectors and opportunities for diversification and **complementarity** with other sectors will require to be developed to allow the marine sector to reach its full potential.
58. Over 70% of Scotland's populations live in its cities, so ERDF will **align and complement** rural and marine activity to protect and improve the environment by investing in green infrastructure in urban environments. Supporting the development of, for example, sustainable drainage, urban farming, and the greening of deprived urban areas will help regulate water and air quality, all of which are under pressure in urban environments, and provide health benefits and better places to live. The work, locally driven, will link to Labour Market Mobility and Social Inclusion, helping unemployed people either get into environmental improvement work, or building their skills and confidence. This method of engaging the people who live in urban environments in protecting and improving them is a key component of Scotland's approach to sustainable urban development.
59. Scotland also needs to invest in becoming resource efficient. As noted in the sectoral analysis of energy use under the low carbon economy thematic objective, commercial and industrial energy use accounts for a full 43.5% of the total (2010 figures), and domestic energy use for another 31%.
60. Significant investments are being made in existing domestic housing stock, and Scotland does not propose to use ESI Funds for this purpose, as there is a risk it will duplicate statutory obligations on housing suppliers and energy providers.
61. However, it is estimated that businesses collectively lose 2% of annual profits through inefficient use of energy, water and waste with over 90% of the materials used in production not finding their way into the final product.<sup>6</sup> The Small Business Survey 2012 asked SMEs whether they had taken any steps to reduce their environmental impact<sup>7</sup>, and found that while improvement had taken place, 66% of SME's reported as unwilling to do more. In addition, Scotland's recycling rates have seen an impressive eight-fold rise from 2001, but at 38.2% remains modest compared to Europe's best performers; and increasing this further could both improve resource efficiency and give rise to a strengthened re-use and re-purposing industry in Scotland.

---

<sup>6</sup> Further details at: <http://www.scotland.gov.uk/Publications/2010/11/15085756/5>

<sup>7</sup> Scottish Government, 2012, Small Business Survey Report 2012.  
<http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012>

62. Individual initiatives will not be enough to promote the scale of **structural reform required**, and so under ERDF a co-ordinated package of business advice and whole-supply-chain support will aim to build a circular economy where waste and environmental harm is eliminated from the way we produce and consume goods and services. This will not invest in state-managed or private 'traditional' waste management sites (this would duplicate statutory duties), but rather work with business to identify new uses for what would otherwise have been seen as waste material, products, heat or water. As with low carbon, this may be complemented by financial instruments to support commercial scale investment.
63. There is also a need for more pinpointed business advice and support on resource efficiency in marine and rural industry. Using EMFF, for example, to deliver energy and fuel efficiency through all parts of the production chain and bringing wider resource efficiency to onshore processing activities. An enhanced and expanded referral system will be developed connecting business support services building on the collaborative Scottish Energy and Resource Efficiency (SERES) partnership. EAFRD will implement an expanded advisory service to ensure farmers and land managers have the information available to them in order to make improvements to working practices that will reduce costs, waste and energy usage.

### 1.1.3 Inclusive Growth

## EMPLOYMENT AND LABOUR MARKET MOBILITY

64. Scotland has seen an increase in unemployment since 2008, and a decrease in participation rates over the same period, although not as severe an increase as some other parts of the UK. The employment rate stands at 71.8 per cent in 2013 Q1, which is not far off the EU 2020 target, but with economic recovery still in fragile early stages, this must remain a priority area for the Social Fund. A number of areas need particular focus:
- There has been a significant increase in *youth unemployment*, particularly in South West Scotland, which qualifies for the Youth Employment Initiative, and in Clackmannanshire and Fife (23.9%). This is a priority to address as youth unemployment can have a long-term impact on earnings and probability of employment. There is also evidence that youth unemployment increases crime rates and has a long-term negative effect on life satisfaction.<sup>8</sup>
  - The number of people in Scotland who were *long-term unemployed* for 12 months or more increased to 32.9% of unemployed people in 2012; up from 18.5% in 2008. Long-term unemployment can also lead to a loss of skill, reducing the economy's stock of human capital and reducing the individual's future employment prospects. *Under-employment* is also on the rise, again posing a threat to long-term skills retention, and creating a bottle neck in the labour market for those with lower skills levels.
  - Rural Scotland has more *part-time and seasonal working, lower wages and an ageing workforce* than the UK as a whole, trends which have increased over the past four years, and at a faster rate than the rest of the UK. Of the four NUTS 2 regions in Scotland, Highlands and Islands has the highest rate of part-time work, due to a great extent to the high rate of *part-time work among women* in the region: 50.6 per cent in 2012.

---

<sup>8</sup> A summary of key results is provided in David Bell and David Blanchflower (2010), UK Unemployment in the Great Recession, *National Institute Economic Review* 214, October 2010.



- Generally, the *gap between men and women* in employment is less significant than in many parts of Europe. There is slightly higher male unemployment (2% difference), but lower female activity rates (10% difference). Whilst the participation rate for women, at 73%, is higher than the EU average (65%)<sup>9</sup>, women carry out more part-time work (as noted above for H&I); and are over-represented in caring and administrative occupations, and underrepresented in management and skilled trades.
  - *Disabled groups* continue to be significantly under-represented in the labour market, with just half being in employment compared to 71% of the general population.
65. Under the European Social Fund, Scotland has developed Skills and Employability Pipelines, an approach which supports local employability projects and aims to create a continuum between those furthest from the labour market and those only requiring small amounts of support to enter higher-skilled employment or access training. This approach is **territorial**, allowing local tailoring to fit precisely the differences in regional and local labour markets, some of which are highlighted above; and to address the specific issues in each (e.g. older workers or low local skills levels or part-time working or gender-segregation). The approach has been limited to 18 of the more deprived local authority areas in the past; in 2014-20, following successful evaluations of the 2007-13 initiative, it will cover all of Scotland.
66. The emphasis of the pipelines tends to be at the lower-skilled and most socially disadvantaged end of the spectrum, and this activity therefore links very closely with Promoting Social Inclusion. Disadvantaged groups such as those with multiple barriers and health issues, low income families, workless households and disabled individuals will be key target groups, and the numbers of individuals in these target groups and the results for them will be monitored and form part of review terms for the pipelines. To directly address social inclusion, the model will also be expanded to address underlying barriers to participation and employment for target groups, including child care, digital skills / access, and health inequalities. These actions mainly form part of Stage 1 of the pipeline and will be supported under the Social Inclusion and Combating Poverty thematic objective. Other stages of the pipeline will be supported under this objective. By targeting vulnerable groups, in particular workless households, this activity will also contribute to the implementation of CSR 4 for the UK in addressing child poverty.
67. Towards the top stages of the pipeline, where the focus is on improving skills, this activity will **align** with activity under Education, Skills and Lifelong Learning, ensuring that an individual can move into higher skills and more highly-skilled employment.
68. The Youth Employment Initiative will focus on intensive support for young people in South West Scotland with an ambitious programme of working with employers to provide training and recruitment support packages with additional support available for those young people who face multiple barriers to entering employment, and an early-intervention approach to those young people at risk of becoming inactive upon leaving formal education. The YEI will focus on just two outcomes – sustainable employment (measured 6 months after the support finishes) and formal qualifications, where a high proportion will be linked to growth sectors in the region. The initiative will align with current national and local Youth Employment Strategies, as well as initiatives under Education, Skills and Lifelong Learning.

---

<sup>9</sup> In 2011, the rate for males was 80.9 per cent in Scotland and 77.6 per cent in the EU. The rate for females was 72.3 per cent in Scotland and 64.8 per cent in the EU. Note that Eurostat data is not directly comparable to ONS labour market data, due to differences in definitions and data sources.

## PROMOTING SOCIAL INCLUSION, COMBATING POVERTY AND ANY DISCRIMINATION

69. While the proportion of individuals living in relative poverty in Scotland has reduced over the last decade there are still pockets of need across Scotland, ranging from urban areas with multiple and complex deprivation; to rural, coastal and island areas which are particularly vulnerable to economic and demographic change and disproportionately affected by rises in fuel prices and changes which affect access to services. Furthermore, living standards have contracted by 8% since the beginning of the recession and the current economic situation, could have a significant negative impact on inclusion and poverty if employment opportunities continue to be limited.
70. The reasons for, and outcomes of, poverty are inextricably linked – poor educational attainment, low quality housing, distance to services (perceived or real), mental and ill health issues, low skilled employment and high concentrations of unemployment, high living costs coupled with low pay, and material deprivation. Many of the target groups are the same as those being supported through Labour Market Mobility. However, concentrated social exclusion will require more than assistance for the individual to enter work. Individuals are affected by families, and families by the communities in which they live. ESF will therefore support asset-based planning in communities, helping those communities mobilise and get the support they choose. This might be intensive preventative family-based interventions, localised approaches to fuel and food poverty, or help with digital access and basic skills to ensure a community is better connected and can access a wider range of services.
71. ESF will also support specific initiatives on financial inclusion, to ensure that individuals and families can learn to manage unsustainable debt levels, have access to basic banking and through this an ability to build a financial history, and can become more aware of a possible range of financial products and the positive and negative impacts they can have on poverty.
72. Both of these actions will take social innovation as a guiding principle, ensuring that new solutions can be piloted and tested locally, and will have a distinct role for the third sector and social enterprises. ESF support under this thematic objective will be strategically concentrated on the most fragile and deprived communities, whether urban, rural or coastal, and forms part of the **territorial** response to the needs of these communities. The focus on these communities should also ensure a contribution to the implementation of CSR4 for the UK, in particular in tackling child poverty as this is obviously heavily affected by family circumstances.
73. The ESF approach **aligns** with the combination of EAFRD/LEADER and EMFF (for rural and coastal communities), which will contribute heavily through its bottom-up approach to community development and enabling communities to develop plans to provide the most effective package to respond to particular issues around local development. These plans will be developed within the Partnership Agreement framework focus on smart, sustainable economic growth, but unlike the targeted ESF interventions, will be available in all eligible areas if a Local Development Strategy is accepted. It is anticipated that LEADER under EAFRD will cover all rural areas in Scotland in 2014-20, an increase on previous programmes, and a minimum of 5% of EAFRD funding will be allocated to this activity as shown in table 1.4.
74. Other thematic objectives will also contribute more widely to social inclusion through a focus on carbon clever communities (enabling community projects and infrastructure), business growth and innovation and employability programmes.

## TERRITORIAL CHALLENGES

75. One of the most significant factors shaping Scotland's ability to reach Europe 2020 targets will be understanding and dealing with the underlying differences in Scotland's regions, and the types of territories within them – the **territorial challenges** – and the different policy responses required to address their specific needs.
76. The ESI Funds will operate nationally in Scotland – but the territorial dimension will inform specific targeting within national interventions, as well as shaping specific geographic interventions such as LEADER or territorial delivery options around the Highlands and Islands; or South West Scotland for youth employment.
77. Within Scotland, there are five broad typologies of territory, with considerable overlap; including a specific current issue with Youth unemployment.

### Areas of multiple deprivation

78. Whilst the overall economic picture remains reasonably resilient, pockets remain within Scotland which were worse off before the recession, and which have been hit harder by it, in terms of unemployment (including youth and long-term), income and social equality and inclusion. That these areas are in many cases the same areas which have been economically and socially excluded for decades (Greater Glasgow, Clyde Valley and the Ayrshires were identified as a 'special area' in UK legislation as far back as 1934) reveals the complexity of the issue. These areas have been a continued focus of regeneration, poverty, welfare reform, education, industry and skills policies, but remain fragile enough to take the first hit when the economy falters.
79. These areas are highlighted in the Scottish Index of Multiple Deprivation<sup>10</sup> (map on following page), which compares data zones in Scotland based a range of indicators such as income, educational attainment, health, and access to services, and tend to cluster around urban areas – around Glasgow, Dundee and the Ayrshires in particular. The real and perceived barriers to employment and social inclusion (level of lone parent households, child care, health and disability, former industries and lack of retraining) are more likely to increase than to decrease, unless significant numbers of jobs can be created locally and with a reasonable skills match.
80. Rapid solutions are unlikely, and interventions will need to both address immediate needs such as employability support (including skills, digital engagement, health and childcare) and long-term options such as retraining and workforce development to support alternative industries to those which have declined, or are declining. The interventions around social inclusion and combating poverty are likely to target these areas in greater concentration.

---

<sup>10</sup> Further details at: [http://22fa0f74501b902c9f11-8b3fbddfa1e1fab453a8e75cb14f3396.r26.cf3.rackcdn.com/simd\\_448749\\_v7\\_20121217](http://22fa0f74501b902c9f11-8b3fbddfa1e1fab453a8e75cb14f3396.r26.cf3.rackcdn.com/simd_448749_v7_20121217)

## Levels of deprivation in Scotland

(SIMD 2012)



Figure 3: Levels of deprivation in Scotland

### Rural, Remote Rural and Island

81. The Scottish Index of Multiple Deprivation is not always an accurate measure of rural deprivation as it identifies small area concentrations of multiple deprivation, whereas poverty and deprivation is more spatially dispersed in rural areas. Rural areas on this index are more likely to qualify on criteria around remoteness from services, which is not as highly weighted as income deprivation, and the index may also be under-reporting e.g. income deprivation due to low take up of benefits (culture of independence, concerns about stigmatisation in smaller communities, poor access to information and advice, eligibility), lack of data in remote areas, and the exclusion of some of the key factors affecting rural areas such as fuel poverty.

82. Parts of rural Scotland, in particular the Highlands and Islands and parts of the Borders and Dumfries and Galloway thus have different but equally difficult issues to address. These include remoteness and permanent geographical handicaps, a high dependency on micro-businesses, self-employment and public sector employment, and falling employment in some primary sectors. Employment is more seasonal and more part-time than in the rest of Scotland; and the costs of living higher through fuel and transport costs. In a 2009 interpretation, based on Population decline (2001-2005), Population density, driving time to mid-sized service centre, and Income per household (from SIMD), this gives a different picture of deprivation in rural areas, with significant concentrations in the Islands, remote Highlands and Southern Scotland:

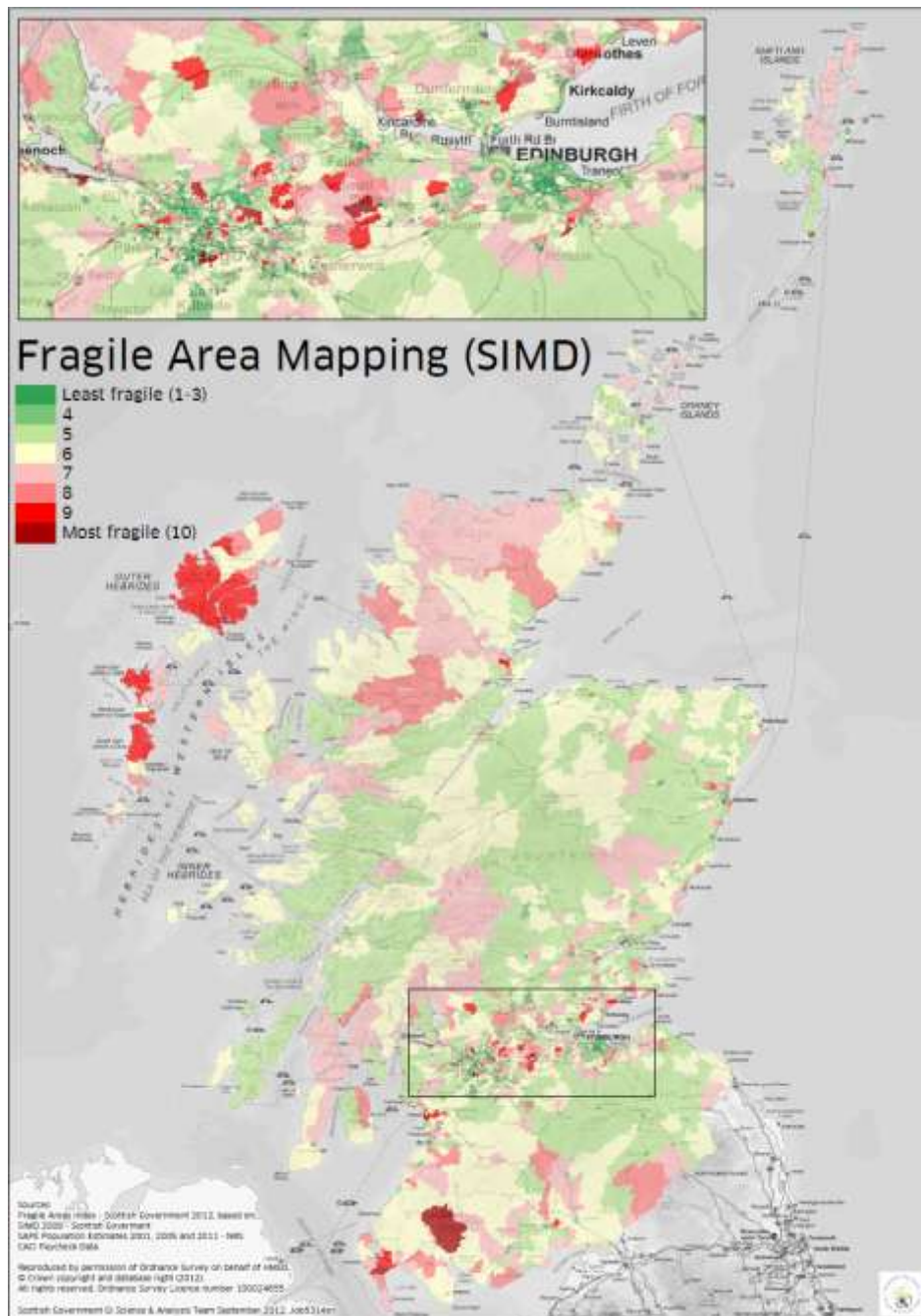


Figure 4: Fragile Area mapping (SIMD)

83. Youth employment is also different in these areas – young people simply leave to study and find work and have been doing so for generations, and this trend is masked in unemployment statistics. Although some return later in life, this also impacts on the demographics in remote and rural areas, resulting in a more rapidly ageing population than the rest of Scotland.
84. In these areas, business support interventions need to be tailored to micro-to-small, and to the predominant sectors; and skills need to match those particular sectors rather than nationally significant ones. Conversely, the same geography that poses challenges also offers opportunities – many of the key sites for renewable energy production in Scotland are in these areas, and the quality of the landscape and nature brings tourism (with the Highlands the second most visited tourist destination in Scotland, and the South rebuilding its reputation for high quality foods and textiles).
85. In terms of remoteness (rather than rurality) and permanent geographical handicaps the Highlands and Islands is the area most affected, and there is a need to acknowledge that this requires a particular response. As a transition region for the purposes of Structural Funds, the region will take part in the national ERDF and ESF programmes but interventions will be tailored and delivered by appropriate local partners in this region to address the additional requirements that the degree of remoteness, peripherality, physical and demographic challenges offer.

## **Coastal/maritime**

86. Many of Scotland's fishery and coastal communities are potentially threatened by a reduction in the scale of the commercial catching sector, yet remain vital for the provision of infrastructure, support services and the workforce for the (sustainable) catching sector that remains. These communities are also vital in their own right, yet are often located in remote coastal / rural areas where there has traditionally been few other source of employment than the primary (catch) sector. They also face the same wider challenges of remote locations, for example distance to services and the domination of micro-business and self-employment.
87. There is significant potential to help these communities, and the individuals in them, to take part in developing Scotland's marine resources. This would require investment in training and re-skilling along with infrastructure investment to facilitate diversification into new marine industries such as marine and offshore energy and coastal tourism, and creating new economic opportunities.
88. Underlying these investments, Scotland is seeking to move towards marine management based on an ecosystem approach to all marine industries, which delivers healthier and more biologically diverse seas and would provide the foundations for economically viable rural and coastal communities in Scotland.
89. For example, the continued decline in marine biodiversity, as highlighted by Scotland's Marine Atlas, will directly impact on Scotland's fishing industry and related businesses such as processing and transport. Damaging fishing practices are not only unprofitable, but also damage the livelihoods of other, more forward thinking sustainable businesses, who understand they must manage marine resources carefully for the long term. An ecosystem approach to fishing sends a clear signal that the Scottish Government values sustainable Scottish businesses over those which are unsustainable and environmentally harmful.
90. Measures to enhance the resilience of our seas to the effects of climate change, such as Scotland's emerging network of Marine Protected Areas, will also help coastal communities. Warming waters negatively impact on breeding, feeding and nursery areas



for commercially important fish, their prey, and other marine species such as seabirds. Scotland's marine wildlife tourism sector contributes £63 million to Scotland's economy annually, and seabirds are often cited as the reason for visiting Scotland's wild places. An independent survey at RSPB's Mull of Galloway reserve, in a part of Scotland where much of the local economy depends on tourism, found that over 70% of respondents cited seeing seabirds as either their main reason or one of the reasons for visiting the area. In just one of many other examples, in 2000, £1.3 million of tourism spending was attributed to Orkney's birds and marine wildlife. The opportunities to diversify and expand marine based tourism through watching whales, dolphins, seals and sea-birds are growing in many parts of Scotland, although the industry remains in its relative infancy.

91. This ecosystem approach to marine management requires investment in fisheries and marine science, and in fit-for-purpose data collection, monitoring and compliance. Such spend is preventative, as it will prevent the deterioration of our seas and the industries and communities they sustain.
92. The EMFF could also help Scotland to meet its international environmental obligations for the marine environment, including ensuring Scotland's waters attain Good Environmental Status by 2020 (EU Marine Strategy Framework Directive). For example, to preserve marine habitats which will have multiple benefits for flood protection, carbon storage, water quality and retention, and provision of fish spawning and nursery grounds, all of which are essential for the success of Scotland's marine businesses and its coastal communities.

### **Scotland's Cities**

93. Scotland's cities and their regions play a central role in driving economic growth, and are home to 70% of the population. Cities and their regions deliver two thirds of Scotland's GVA (67% in 2011, NUTS 3 areas, ONS), produce 59% of Scottish exports (2010, Travel To Work Area basis from Community Innovation Survey, BIS) and 86% of Scotland's population lives within an hour's drive of one of our cities.
94. The unique geography, with cities located within easy travelling distance, and the developed specialisms of each city (for example off-shore oil and gas in Aberdeen; creative industries in Dundee; engineering in Glasgow; and financial services in Edinburgh) means that our cities can capitalise on collective strengths and investment opportunities, and present themselves as a single, more attractive unit to investors.
95. As centres of the bulk of our population cities make ideal test beds for new projects and they have been instrumental in rapidly progressing new initiatives such as smart ticketing. All of our cities working together means that from inception new systems are designed to operate between cities, enabling better long-term connectivity and giving a substantial launchpad for national initiatives.

### **Youth Unemployment**

96. South West Scotland qualifies for the Youth Employment Initiative. This area includes many of the same communities affected by former industrial decline, high levels of unemployment and deprivation, and pockets of low educational attainment – but also one of Scotland's highest GDP per capita NUTS 3 areas (Glasgow), with a very significant travel to work area. The 2007-13 programmes have already dedicated significant resource to starting to tackle the youth employment issues; and many national policies and ESI Fund interventions will also have an impact. However, with the scale of youth unemployment in this particular geographical area, the YEI in Scotland,

and the mainstream ESF it attracts, will be required to intensify and extend activity beyond what is available in the rest of Scotland, as well as trialling new approaches to early intervention for those at risk of becoming inactive and vocational training options.

### **Summary of lessons learned for ESI Funds from 2007-13**

97. The design of a new programming period should not operate in isolation. The Scottish programmes have been subject to monitoring and evaluation throughout, and the following are the key lessons the Funds can collectively draw for future implementation:

- European funds, in the scale we receive, cannot cover all aspects of all policies. This and the shortage of match funding means we inevitably need to align with national policy to find co-financing and match, but with good alignment of EU and SG ambitions, the programmes can be used to gradually shift national policy towards EU 2020, making both Programmes and domestic policy more ambitious;
- Scotland does well at committing and drawing down EU Funds. However, the large number of small projects means fragmented outputs and more limited impact from the funds. Some schemes and priority axes need greater targeting (thematic or geographical) to achieve bigger outcomes;
- The gradual shift towards more strategic approaches (Strategic Delivery Bodies and Community Planning Partnerships in Structural Funds, or more integrated multi-outcome schemes in rural funds) have started to deliver these bigger impacts. However, it has not been easy to ensure that the delivery matches these higher ambitions, there is limited evidence of transformative impacts, and a feeling that the funding could achieve more remains;
- The programmes and schemes continue to be complex, both at European and at Scottish level. The trend has been to add more options to gain more potential benefits, but this has also led to compliance issues and additional audit burdens;
- Smaller organisations cannot, broadly speaking, cope with the audit and record-keeping burden required to draw down EU funds and allowing them to run separate projects draws a huge resource requirement both of project sponsors/beneficiaries (which could be better spent delivering high quality outcomes) and the Managing Authority and Audit Authority;
- It is difficult to ensure compliance for actual (defrayed) costs, and it would be beneficial to move to simplified cost models. This should also allow a better focus on monitoring outcomes and impacts of the funds, rather than the common focus on financial performance;
- Outputs and indicators have to be relevant and specific to what you want to achieve (e.g. measuring whether an SME has an e-commerce strategy is not the same as measuring whether they are using it or gaining the benefits of it). We will probably never quite be able to measure long term outcomes within a programme period, but we need better proxy outputs and results that relate real progress;
- Better technical support is required, both for applicants and for managing the programmes. IT systems need to be user-friendly and more flexible to allow high-quality monitoring of outcomes, and to ensure compliance with e-cohesion. Better information management, and better management information, would also mean that programme and budget changes are well-informed and targeting better outcomes;
- Horizontal themes were not as seriously treated in 2007-13 as mainstreaming them should have ensured. Horizontal themes should continue to have a dual approach (mainstreamed and specific projects) but should be considered a more integral part of planning the programmes and of assessing any applications;
- Evaluations and communications work better when they focus on telling the story of EU Fund achievement, rather than simply meeting regulatory requirements. A more qualitative approach on both, and a more consistent approach in terms of ongoing

and constant evaluation of what the programmes are delivering, would help counter public perceptions which inevitably focus on those areas of programme delivery which are not working smoothly;

- Managing Authorities could do more to facilitate and support bids to improve the quality and uptake of Funds. Project monitoring should follow up more routinely to better ensure committed funds translate into spend. If the volume of applicants and available resources would prevent this one-to-one mentoring, this could be prioritised by a risk assessment system;
- LEADER extended its coverage to 95% of Rural Scotland and has delivered some £50 million of funding to innovative projects in 2007-13. However, audit issues around clarity of guidance, availability of data and misinterpretation of rules have been significant, and the broad scope has added complexity, particularly in areas where other (domestic) local development plans exist. Clarity of guidance, purpose and scheme rules will be essential in the new programme; and
- EAFRD delivery saw a significant change to bring three different organisations together into a common way of working; and to integrate a new set of customer registrations for LEADER and community type projects. The change was not robustly managed, and this impacted on the way the programme was perceived by both staff and customers alike. However the long-term engagement and interaction between a wide range of stakeholders has been beneficial and should be continued.

## **1.2** A summary of the ex-ante evaluations of the programmes or key findings of the ex-ante evaluations of the Partnership Agreement where undertaken by the Member State at its own initiative

1. The evaluators of the Partnership Agreement and operational programmes in Scotland (ERDF, ESF and EAFRD) have been actively involved for more than a year in a schedule of work involving detailed reviews and feedback on socio-economic baselines, working papers and drafts of the partnership agreement and programme strategies. In addition, the programmes have all been subject to a Strategic Environmental Assessment (SEA) that has drawn on environmental indicators and potential impacts on these from the planned activity; and an Equalities Impact Assessment has been carried out for the ERDF and ESF.
2. The team evaluating the programmes under the ERDF and ESF has conducted a theory of change workshop and maintained a regular dialogue with the programme team. Similarly, the team undertaking the evaluation of the SRDP (and related SEA) have used appropriate techniques and regular dialogues with SG staff. As the programming process nears conclusion a round of formal stakeholder interviews and document reviews have been carried out to validate findings and recommendations.
3. At an early stage the programme teams developed baseline reviews of the socio-economic context and a collective SWOT analysis for all ESI Funds, supplemented by specific fund-level SWOT detail including around each of the six Rural Development Priorities for EAFRD. This highlighted a range of needs that underpin the strategy set out in the Partnership Agreement. Evaluators provided detailed comments on this work as it progressed, highlighting opportunities to address gaps in the analysis and make use of alternative information sources. In particular there was additional emphasis on understanding lessons from previous programmes. The analysis of the background data provided a sound basis for the programme strategy as summarised in the Partnership Agreement, and the starting point of a collective SWOT has ensured that all programme strategies are nested within the same needs analysis and are mutually consistent.
4. Overall, each of the operational programmes address the challenges laid down by Europe 2020. For actions funded by the ERDF and ESF this happens through the programme's alignment with the National Reform Programme and its detailed

consideration of the Scottish and sub-regional situation and needs. There is evidence these have been formed and amended as a result of consultation and feedback. For the SRDP the designation of Rural Development Priorities which are structurally linked with the objectives of Europe 2020 within the appropriate Regulation, and the requirement that the SRDP is designed to serve these priorities, ensures that there is a high level of consistency within the design.

5. There are also good and explicit links between the programme priorities and established policy at Scottish Government level (which in turn dovetails with UK government policy). There is strong alignment between programme priorities and the strategic aims of most partners. Evaluators are clear that there are causal links between the needs, actions and outputs, and confident that there will be appropriate impacts.
6. Consultation on the financial allocations has taken place at a fairly late stage in the programming process. Broadly speaking there is an understanding the allocations reflect a range of pressures including capacity to deliver as well as reflecting the need for investment across the different thematic objectives and rural development priorities. We have encountered no major issues in our consultations but a common request is the need to retain flexibility, accepting that the need for some interventions may change over the seven-year programming span.
7. On ESF and ERDF, partners acknowledge that any negotiations for a programme of this scale will be complex and in general welcome the variety of consultation events, particularly at the beginning of the process. Some partners felt the process could have been more transparent as the link between discussions and decisions has not always been clear, and timescales and methods have changed and adapted as the strategy developed. The 'call for interventions' mid-way through the programming was poorly received by some partners who suggest they would have preferred more time to work up robust plans. There is also a question over the influence of audit and compliance on programme design; particularly as far as the role small organisations may be concerned.
8. However, a number of partners have also expressed support for the process, particularly in relation to ensuring that high quality projects are developed iteratively and can inform the overall strategy and targets. The evaluators' opinion is that the integrated process of developing operational programming has contributed to the internal coherence of the programme. Using a partnership approach (Strategic Delivery Partnerships) to consider broad outcomes for 'smart, sustainable and inclusive' fostered constructive discussion and debate on alignment, integration and synergies that promise to deliver an innovative approach to delivery. This needs to be amplified and further developed as the detailed planning progresses. Consideration of the best use of Financial Engineering Instruments to support these approaches has also resulted in significant modification of approaches.
9. Stakeholders and key partners in each of the operational programmes believe there is strong alignment between the challenges identified and the proposed interventions for dealing with these challenges. But there remain concerns across the partnership about inadequate consideration of poverty, capacity building (for the third sector) and social exclusion. The consultative process is reflected well over the course of developments, where the concerns expressed in earlier feedback is properly reflected. This includes, for example, recognition of the consensus that the Highlands & Islands should be considered separately in administrative and operational terms, and the inclusion of additional partners over time.
10. Within EAFRD, the focus on delivering on the EU Rural Priorities, and analysing SWOTs and needs on this basis involving the close collaboration of stakeholders, has ensured a high level of coherence.
11. Extensive consultation with stakeholders have taken place from a very early stage, including their inclusion in Working Groups on specific aspects of the proposed SRDP,

including monitoring and evaluation, which have identified improvements over the workings of the SRDP for the previous period. In addition, two rounds of public consultation have taken place. Designers of the new programme have considered the best way of delivering parts of the SRDP where there is potential overlap with other ESI Fund operational programmes, such as the provision of business advice.

12. For the SRDP attention has been drawn to the requirement of proposed interventions to consider alternative mechanisms, a particular issue where support to businesses is designed to have both environmental and socio-economic impacts. However, ultimately the responsibility for the choice lies with the Scottish Government, but the reasons for that choice have to be transparent.
13. In conclusion, the evaluators recognise that, within each operational programme, there is detailed work to be completed in terms of implementation planning which will help iron out the remaining gaps in information and inconsistencies in analysis. There have been some issues in the way the programme has been developed with both pros and cons identified which will be covered in the full evaluations. The consultations and further documentary reviews show there is widespread support for the strategy being followed, albeit with some reservations. The Partnership Agreement and operational Programmes as they stand correctly identify the key barriers to achieving Europe 2020 objectives in Scotland and prioritises actions to address them.

**1.3 Selected thematic objectives, and for each of the selected thematic objectives a summary of the main results expected for each of the ESI Funds**

| Needs  | Opportunities  | Thematic Objective   | Specific Objective(s)   | Main Results  | Main Results | Main Results   | Main Results  |
|--|--|--|---|---|--------------|--|---|
|  |  |  |   | ERDF  | ESF          | EAFRD  | EMFF  |
| <ul style="list-style-type: none"> <li>• Increase commercialisation and take-up of R&amp;D&amp;I and regional requirement for R&amp;D&amp;I capacity increase;</li> <li>• increase business demand for R&amp;D&amp;I support and investment;</li> <li>• Increase industry/science partnerships in fisheries and aquaculture</li> </ul> | <ul style="list-style-type: none"> <li>• key sectors in life and health sciences, chemicals</li> <li>• strong links to sustainable growth through renewable and low carbon technology innovation, and circular economies</li> <li>• Digital sector and services growth</li> <li>• Improve knowledge-based regulation and management</li> </ul> | (1) Strengthening research, technological development and innovation | <ul style="list-style-type: none"> <li>• To increase R&amp;D spending in Scotland and develop a stronger culture of innovation within enterprises.</li> </ul> | <ul style="list-style-type: none"> <li>• Increase in the number of innovative enterprises as a % of all businesses in Scotland</li> <li>• Increase in the number and value of academic spin-offs</li> <li>• Additional leverage BERD (Business Expenditure on Research and Development)</li> <li>• Increase in turnover from innovative investments in companies</li> </ul> |              | <ul style="list-style-type: none"> <li>• Increase in turnover from innovative investments in food and drink sector</li> <li>• Deliver new approaches to agricultural land management through innovation</li> </ul> | <ul style="list-style-type: none"> <li>• Increase in turnover from innovative investments in companies</li> <li>• Deliver new approaches to fisheries and aquaculture management through innovation</li> <li>• Development of new IT-based businesses in coastal fisheries areas, reducing reliance on expensive transport and haulage links</li> </ul> |



| Needs   | Opportunities  | Thematic Objective                                   | Specific Objective(s)   | Main Results  | Main Results | Main Results   | Main Results |
|---|--|--|---|---|--------------|--|--------------|
|   |  |  |   | ERDF  | ESF          | EAFRD  | EMFF         |
| <ul style="list-style-type: none"> <li>To enhance ICT access in remote areas to avoid the competition gap and social inclusion</li> </ul> | <ul style="list-style-type: none"> <li>Remote service delivery, particularly telehealth</li> <li>IT dependent sectors such as creative and data management and - mining</li> </ul> | (2) Enhancing access to, and use and quality of, ICT | <ul style="list-style-type: none"> <li>To enhance the opportunity for economic and social growth in areas with a lack of provision</li> </ul> | <ul style="list-style-type: none"> <li>Decrease in the % of population without broadband access of at least 30 mbps</li> <li>Decrease in the % of businesses without broadband of at least 30 mbps</li> </ul> |              | <ul style="list-style-type: none"> <li>Decrease in the % of population without broadband access of at least 30 mbps</li> <li>Decrease in the % of businesses without broadband access of at least 30 mbps</li> </ul> |              |

| Needs   | Opportunities  | Thematic Objective   | Specific Objective(s)   | Main Results  | Main Results | Main Results   | Main Results   |
|---|--|--|---|---|--------------|--|--|
|   |  |  |   | ERDF  | ESF          | EAFRD  | EMFF   |
| <ul style="list-style-type: none"> <li>• Lack of available business finance</li> <li>• Increase growth and export readiness/ambitions of SMEs</li> <li>• Support diversification and sustainability in fragile areas</li> </ul> | <ul style="list-style-type: none"> <li>• Large SME base to target</li> <li>• Quality of Scottish produce and products, including marine products</li> <li>• Increased adoption of digital technology, including SMART technology to enhance competitiveness</li> <li>• Micro and traditional business growth in rural and coastal areas</li> </ul> | (3) Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF) | <ul style="list-style-type: none"> <li>• To increase export growth into high growth emergent markets, and diversify the export base</li> <li>• Higher number of growth businesses</li> <li>• Maintain and improve viability of rural and marine businesses</li> </ul> | <ul style="list-style-type: none"> <li>• Increase in the number of growth SMEs</li> <li>• Increase in the number of FTEs in supported enterprises</li> <li>• Increase in the number of SMEs obtaining risk capital finance</li> <li>• Increase in the number of SME's taking on new/additional employees</li> </ul> |              | <ul style="list-style-type: none"> <li>• Increase in the number of FTEs in supported enterprises</li> <li>• Increase in number of new entrants to farming</li> </ul> | <ul style="list-style-type: none"> <li>• Increase in sustainable aquaculture production of finfish and shellfish</li> <li>• Increase in the number of FTEs in supported enterprises</li> <li>• Fleet restructuring and modernisation delivered through financial investments, supporting CFP reform obligations</li> <li>• Increase rate of new business start-ups in fisheries areas</li> </ul> |

| Needs  | Opportunities  | Thematic Objective   | Specific Objective(s)  | Main Results   | Main Results | Main Results | Main Results  |
|--|--|--|--|--|--------------|--------------|---|
|  |  |  |  | ERDF   | ESF          | EAFRD        | EMFF  |
| <ul style="list-style-type: none"> <li>• Continue decrease in GHG emissions</li> <li>• Low carbon investment projects often high risk or not investor ready</li> <li>• Address modal shift in transport usage</li> </ul> | <ul style="list-style-type: none"> <li>• Significant potential for renewables, including marine and tidal</li> <li>• Existing expertise in energy and off-shore engineering</li> </ul> | (4) Supporting the shift towards a low-carbon economy in all sectors | <ul style="list-style-type: none"> <li>• Decrease in greenhouse gas emissions through uptake of environmentally friendly transport modes</li> <li>• Exploit opportunities for low carbon economy, supply chain growth and development in low carbon communities</li> </ul> | <ul style="list-style-type: none"> <li>• Increase in MW renewable energy generation</li> <li>• Increase in the number of low carbon products , services and processes</li> <li>• Increase in the number of low carbon communities</li> <li>• Increase in use of public and active transport modes</li> <li>• Increase in the use of alternative transport fuels</li> </ul> |              |              | <ul style="list-style-type: none"> <li>• Increase in the Blue Growth developments established, particularly marine biomass for energy purposes</li> <li>• Increased use of renewable energy generation in aquaculture and processing &amp; marketing</li> </ul> |

| Needs  | Opportunities  | Thematic Objective                    | Specific Objective(s)  | Main Results   | Main Results | Main Results  | Main Results   |
|--|--|---------------------------------------|--|--|--------------|---|--|
|  |  |                                       |  | ERDF   | ESF          | EAFRD   | EMFF   |
| <ul style="list-style-type: none"> <li>• build resource efficiency in all industrial and commercial sectors</li> <li>• Improve the condition of Scotland's natural assets (designated sites, water quality, abundance of breeding birds, forest and peatland) and its marine environment</li> <li>• Mitigating the impact of Climate Change</li> </ul> | <ul style="list-style-type: none"> <li>• Exploit the opportunities for "blue growth" from marine resources</li> <li>• A circular economy could give rise to new re-use and re-purposing industries</li> <li>• Maintain and increase public goods and competitive advantage from high quality nature</li> </ul> | (6) Environment / resource efficiency | <ul style="list-style-type: none"> <li>• To create more resource efficient enterprise and grow re-processing and re-manufacturing industries</li> <li>• To maintain and improve the condition of Scotland's environments</li> <li>• To contribute to climate change prevention and mitigation</li> </ul> | <ul style="list-style-type: none"> <li>• Increased energy efficiency and reduction of waste generated in business</li> </ul> |              | <ul style="list-style-type: none"> <li>• Increased number of farms accessing advice to reduce energy and waste consumption</li> <li>• Improvement in the condition of Scotland's protected natural and historical sites and its marine environment</li> <li>• Increase in woodland and farmland supporting biodiversity or improving water management or soil management</li> <li>• Increase in the area of woodland and farmland contributing to carbon sequestration</li> <li>• Reduction in agricultural emissions of methane and nitrous oxide</li> </ul> | <ul style="list-style-type: none"> <li>• Increased energy efficiency and reduction of waste generated in business</li> </ul> |

| Needs  | Opportunities  | Thematic Objective   | Specific Objective(s)  | Main Results | Main Results  | Main Results | Main Results |
|--|--|--|--|--------------|---|--------------|--------------|
|  |  |  |  | ERDF         | ESF   | EAFRD        | EMFF         |
| <ul style="list-style-type: none"> <li>• Unemployment, esp youth unemployment</li> <li>• Skills loss from long term unemployment</li> <li>• target groups and minorities under-represented in labour market</li> <li>• Increase skills and employability in target groups and areas</li> <li>• Decrease number of workless households</li> </ul> | <ul style="list-style-type: none"> <li>• Growth in areas which are stagnating through investment in human capital</li> </ul> | (8) Promoting sustainable and quality employment and supporting labour mobility; | <ul style="list-style-type: none"> <li>• To improve access to labour market opportunities for the unemployed and disadvantaged groups</li> </ul> |              | <ul style="list-style-type: none"> <li>• Decrease in unemployment, especially amongst the 16-24 age group</li> <li>• Increase in the number of young people in education, training or work</li> <li>• Increase in the level of skills attained for supported beneficiaries</li> <li>• Increase in the number of graduates in positive destinations</li> <li>• Increase in digital literacy and advanced digital skills</li> </ul> |              |              |

| Needs   | Opportunities  | Thematic Objective   | Specific Objective(s)  | Main Results | Main Results  | Main Results  | Main Results  |
|---|--|--|--|--------------|---|---|---|
|   |  |  |  | ERDF         | ESF   | EAFRD   | EMFF  |
| <ul style="list-style-type: none"> <li>• Areas of concentrated disadvantage/poverty/fragility</li> <li>• Prolonged deprivation/ workless households</li> <li>• Risk of rising inequality</li> <li>• Digital exclusion in target areas and demographics</li> </ul> | <ul style="list-style-type: none"> <li>• Link to higher and technical skills to minimise exclusion over the long-term</li> <li>• Improvement/expansion in local services/infrastructure within communities (Leader)</li> </ul> | (9) Promoting social inclusion, combating poverty and any discrimination;                      | <ul style="list-style-type: none"> <li>• To alleviate inequality, disadvantage and poverty</li> </ul>                                  |              | <ul style="list-style-type: none"> <li>• Decrease in population in poverty or facing multiple complex needs</li> </ul>  | <ul style="list-style-type: none"> <li>• Improvement in rural community capacity</li> </ul> | <ul style="list-style-type: none"> <li>• Improvement in rural community capacity</li> </ul> |
| <ul style="list-style-type: none"> <li>• Structural skills gap between high and low skills</li> <li>• Decreasing demand for low skills base and changing skills demands for future industries</li> </ul>  | <ul style="list-style-type: none"> <li>• Skills shortages in key sectors including oil and gas, and particularly mid to high skills</li> <li>• Skills needs can be directly linked to growth sectors in each region</li> </ul> | (10) Investing in education, training and vocational training for skills and lifelong learning | <ul style="list-style-type: none"> <li>• To increase skills of individuals to support the development of key growth sectors</li> </ul> |              | <ul style="list-style-type: none"> <li>• Increase in medium to higher level skills attainment, particularly for key sectors</li> <li>• Increase options for post-16 education, particularly technical and vocational options</li> <li>• Reduction in the employment rate gap between low-skilled workers and non low-skilled workers</li> </ul> |   |   |

**1.4** The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds, as well as the total indicative amount of support foreseen for climate change objectives

**1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve).<sup>11</sup>**

|   | <b>ERDF</b><br>€m | <b>ESF</b><br>€m | <b>EAFRD</b><br>€m <sup>12</sup> | <b>EMFF</b><br>€m <sup>13</sup> | <b>TOTAL</b><br>€m |
|---|-------------------|------------------|----------------------------------|---------------------------------|--------------------|
| 1. Strengthening research, technological development and innovation   | 100               | 0                | 7                                | TBC                             | 107                |
| 2. Enhancing access to, and use and quality of, information and communication technologies  | 46                | 0                | 6                                | TBC                             | 52                 |
| 3. Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF) | 135               | 0                | 92                               | TBC                             | 228                |
| 4. Supporting the shift towards a low-carbon economy in all sectors   | 129               | 0                | 0                                | TBC                             | 129                |
| 5. Promoting climate change adaptation, risk prevention and management  | 0                 | 0                | 0                                | TBC                             | 0                  |
| 6. Protecting the environment and promoting resource efficiency   | 55                | 0                | 782                              | TBC                             | 837                |
| 7. Promoting sustainable transport and removing bottlenecks in key network infrastructures  | 0                 | 0                | 0                                | TBC                             | 0                  |
| 8. Promoting sustainable and quality employment and supporting labour mobility  | 0                 | 170              | 0                                | TBC                             | 170                |
| 9. Promoting social inclusion, combating poverty and any discrimination   | 0                 | 89               | 47                               | TBC                             | 136                |

<sup>11</sup> All allocations set out in this table have been subject to rounding so may not total up.

<sup>12</sup> EAFRD allocations in this table include voluntary modulation.

<sup>13</sup> EMFF is an UK wide programme. The details of the thematic objective breakdown for EMFF is solely set out in the UK chapter.



|   | <b>ERDF</b><br>€m | <b>ESF</b><br>€m | <b>EAFRD</b><br>€m <sup>12</sup> | <b>EMFF</b><br>€m <sup>13</sup> | <b>TOTAL</b><br>€m |
|---|-------------------|------------------|----------------------------------|---------------------------------|--------------------|
| 10. Investing in education, training and vocational training for skills and lifelong learning | 0                 | 149              | 0                                | TBC                             | 149                |
| 11. Enhancing institutional capacity and an efficient public administration                   | 0                 | 0                | 0                                | TBC                             | 0                  |
| Technical Assistance  | 9                 | 8                | 10                               | TBC                             | 28                 |
| <b>Total</b>  | 476               | 417              | 946                              | TBC                             | 1,841              |

## 1.5 The application of horizontal principles and policy objectives for the implementation of the ESI Funds

### 1.5.1 ARRANGEMENTS FOR THE PARTNERSHIP PRINCIPLE (WITH REFERENCE TO ARTICLE 5 CPR) (ARTICLE 14 (1) (C) CPR), INCLUDING AN INDICATIVE LIST OF PARTNERS AND A SUMMARY OF THE ACTIONS TAKEN TO INVOLVE THOSE PARTNERS

1. In accordance with Article 5 of the CPR, the Partnership Agreement has been developed with direct involvement from a wide range of stakeholders ensuring input from those with interest and involvement in particular funds and those with a broader policy perspective.
2. A Stakeholder Engagement Group was established early in 2012 and met regularly to review progress on all ESI Funds, comment on drafts and be involved in further working groups established to progress work on the thematic objectives in particular. These working groups involved a broader range of stakeholders with direct involvement in particular themes, including social, civic and environmental partners, economic interests and knowledge institutions alongside public bodies. These groups have been directly involved in suggesting and refining the major interventions and schemes around which the Operational Programmes will be established. A list of members of the Stakeholder Engagement Group is included in the Annexes.
3. In addition to this group, a number of working groups were established to concentrate on particular fund issues, the results of which were combined to effect the development of the Partnership Agreement. These covered:
  - SRDP Groups – a number of groups involving stakeholders reviewing lessons learned, scheme operation, application systems;
  - Lessons learned from current Programmes;
  - Simplification Agenda;
  - Indicators; and
  - Sustainable Development.

4. A separate EMFF stakeholders group was established at the start of 2012 to guide the developments of the Scottish elements of the UK Operational Plan, starting with the SWOT.
5. An Equalities Group is being established which will incorporate academics, stakeholders and policy leads who will input into the design of proposals under the Operational Programmes, monitor and evaluate. In addition to these groups, a number of technical assistance projects were approved that fed directly into the development work which covered particular policy areas such as gender equality, third sector involvement, Roma Inclusion, lessons learned in the Highlands and Islands and Community Planning Partnership Management systems. These were all directly monitored by stakeholders.

### **Added Value of Partnership**

6. The nature of the governance proposals highlighted in section 2 has required strong input from stakeholders identified as leading the key activities and interventions to be funded. Partnership arrangements were put in place to develop both delivery mechanisms and policy direction from May 2013, and this intensive engagement has helped shape the final Partnership Agreement and the Operational Programmes to ensure these are fit for purpose and focused on the things which will deliver EU 2020 goals; and to ensure that both Managing Authorities and partners are prepared for the launch of the programmes.

### **Wider Involvement**

7. During the early development stages, a Future Funds blog was established to update Structural Funds stakeholders, invite comment and discussion with newsletters and surveys also posted. The Scottish Government also used the SRDP website to update stakeholders on EAFRD proposals. The fisheries sector has been actively involved in developing the EMFF proposals through the Stakeholder Group, and also through Scottish sectoral representation in the EFF UK PMC, with PMC members feeding back to / taking thoughts from their constituent groups.
8. Consultation on the Partnership Agreement was undertaken, in conjunction with the Operational Programme consultations on each fund, during May to early July 2013 and again in December 2013-February 2014, as well as through roadshows and the websites. 305 responses across both consultations were received with strong agreement with wider proposals for stronger integration and strategic implementation. A summary of responses:
  - Recognition of the need for more strategic cooperation amongst public agencies;
  - Clarification on how the funds integration proposals would work in practice;
  - Lack of agreement that crofters should be restricted from applying to wider schemes;
  - Acknowledgement that integration beneficial but that it should streamline and not result in further bureaucracy;
  - Need to ensure specific needs of Highlands and Islands are accommodated in proposals;
  - More strategic direction welcomed but still need these to respond to regional and local needs;
  - Concern that Sustainable transport should be supported;
  - Need to be more explicit about how Youth Employment/Health Inequalities/Active Ageing issues were being tackled; and

- Support for simplification and unit and standard cost models.
9. These responses have been carefully considered, and have been woven into proposals where possible. For example, the strategic intervention proposals which form the basis of programming have been tested with regional partners, to ensure Scotland wide interventions can reflect and respond to local and regional needs. Sustainable transport measures have also been incorporated specifically in recognition of their contribution towards the development of a low carbon economy.

#### 1.1.4 1.5.2 Promotion of equality between men and women, non-discrimination and accessibility (with reference to Article 7 of CPR)

1. The Scottish Programmes will have a “twin-track” or dual approach to promoting and mainstreaming equality, including gender equality, non-discrimination and accessibility by combining scope for positive action through discrete projects which have a focus on addressing inequalities; and mainstreaming – a requirement that all funded projects evidence they address equality, non-discrimination and accessibility in their project activity. Mainstreaming involves developing operating methods, procedures and practices to ensure funded activities promote equality.
2. In addition to the promotion of positive action projects which specifically tackle inequality, discrimination and accessibility in the labour market, entrepreneurship, R&D and training, an equality perspective will be mainstreamed into Programme planning, preparation, implementation, monitoring and evaluation.
3. An equal opportunities working group is being established for the 2014-2020 programmes, and this group will bring together representatives of key equality organisations, project sponsors with experience in mainstreaming equality and tackling discrimination and accessibility issues and also staff from the Scottish Managing Authorities for structural funds and rural development. This group will help to develop a mainstreaming strategy and guidance for the 2014-2020 programmes, in conjunction with evidence from evaluations of mainstreaming equality in the current programmes.

#### 1.1.5 1.5.3 Sustainable development (with reference to Article 8 of CPR)

1. Sustainability is fundamental to Scottish Government’s purpose of enabling Scotland to flourish. It recognises that the objective of sustainable economic growth will be shared by all Scotland’s people, helping to secure a high quality environment and a sustainable legacy for future generations. The Government’s updated Economic Strategy promotes economic growth and environmental responsibility as mutually reinforcing.
2. Scotland’s Environment Web reports the state of our environment as being generally good. Implementation of environmental legislation including the Water Framework Directive has seen significant improvements in water quality. Significant concerns remain; these include localised air pollution, diffuse pollution affecting water and soils, increases in waste, and loss of biodiversity. These affect human health, our wildlife and our economic welfare. The funding programmes will address these issues, as well as contributing to protection of the water environment as set out in the Water Environment Water Services Act.
3. The most significant environmental challenge is climate change. Scotland has ambitious targets for reducing greenhouse gas emissions under the Climate Change (Scotland) Act 2009. Energy efficiency in all sectors and behavioural change will be important to help Scotland achieve its targets, and investments across all Funds will need to address this. The Scottish Adaptation Programme, to be published in 2013, will set out Scottish

Ministers' strategic approach to climate change. In addition to the 20% of the funds that will be allocated to climate change measures, all investments will take Scottish Government priorities of climate change into account. Land use, including woodland and peatland restoration, is essential for reducing emissions and building the capacity to store carbon.

4. The Scottish Government is committed to the national resource efficiency strategy, Safeguarding Scotland's Resources, which sets out priorities for efficient use of resources with reference to the environment and the economy. Investments will address the priorities set out in the national resource strategy and will contribute to delivering Scotland's Zero Waste Plan. This will include using materials efficiently, avoiding waste and reusing products because they deliver significant benefits, both financially and environmentally.
5. The Scottish Government is committed to the EU goal of halting biodiversity loss and the degradation of ecosystems by 2020, and seeking their restoration. Our 2020 Challenge aims to increase biodiversity on land and in our seas, and support healthy ecosystems, maximising the benefits of a diverse natural environment and the services it provides. Protected places, such as those identified as part of the Natura 2000 network, are key parts of healthy ecosystems. The Scottish Government target is to bring the Natura network and all other designated nature conservation sites into favourable condition.
6. Scotland's seas are economically productive with a wide range of human activity depending on them. They are generally clean and safe. They support a diverse array of habitats and contain nationally and internationally important species. There are two key pressures on Scotland's marine environment that are both significant and widespread – the effects of climate change and the impacts of fishing on marine species and habitats.
7. Climate change increases certain environmental risks, most notably flooding, but is also linked to the introduction and spread of non-native species and introduced animal and plant diseases. Plant health controls in Scotland are based on the EU Plant Health Regime. They control the import, movement and trade in plants and they include measures to control the spread of pests and diseases. The Scottish Government wishes to encourage everyone to take responsibility for biosecurity to avoid the devastating effects of animal disease. This is vital in terms of controlling and eradicating any notifiable diseases, and more generally in terms of maximising livestock health, welfare and productivity in Scotland. This principle applies equally to Scotland's aquaculture sector, where some of the proposed innovation measures in EMFF are likely to have a significant positive impact, not only in health and welfare but also in areas such as climate change, environmental impact and feed sustainability.
8. The principles of sustainable development and resource efficiency, and the priorities set out above will be delivered by a dual approach across the ESI funds: by mainstreaming sustainability across all projects, and through specifically funded actions within the Thematic Objectives. All Programmes must be able to demonstrate that the economic, social and environmental impact has been considered; that environmental integration requirements are fully realised and the opportunity to maximise positive impacts are explored. Investments will be required to meet nationally recognised environmental benchmarks, for example, BREEAM Excellent and FSC timber. The fisheries and aquaculture sectors are increasingly embracing independently accredited certification schemes, and this trend will continue, with EMFF support, towards 2020.
9. In line with the polluter pays principle, programmes will not make payments for complying with established environmental legislation or to support any action that is a cross-compliance requirement. Where EU regulations permit, however, consideration will be given to supporting, over a strictly limited period, the investment that businesses may need to make to enable them to comply with any new and higher regulatory

requirements. Support for improved knowledge of, and ability to work with, environmental regulations, such as EIA, are envisaged for the EMFF Programme

10. Use of green public procurement guidance will apply across all the Funds. Where contract values exceed the EU procurement threshold, the EU procurement directives will help ensure avoidance or reduction of environmentally harmful effects of interventions.

#### 1.1.6 1.5.4 Horizontal Policy Objectives

1. The horizontal themes of equality, non-discrimination and sustainable development will form the key focus for the implementation of the 2014-2020 programmes. However a number of additional horizontal policy objectives will be monitored focussing on:

#### **Innovation**

2. Innovation will be encouraged across all the thematic objectives with access to funding made available to encourage, test and pilot new ideas. This will especially be visible under the low carbon economy, education and skills, environment and resource efficiency and social inclusion and combating poverty. Social innovation will be treated as a horizontal policy across all actions pursued under the latter thematic objective and access to funding will provide an impetus to new approaches.

#### **Resource efficiency**

3. The ESI funds in Scotland will promote the practical implementation of resource efficiency measures within all investments, in particular those made under smart growth. Businesses that receive support will gain access to information and advice to encourage resource efficiency to form a natural part of the business growth support package.
4. These will be reflected across the thematic objectives with practical implementation measures put in place to enable success.

#### **2 ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - Article 15 (1) (B) CPR**

##### **2.1** The arrangements, in line with the institutional framework of the Member States, that ensure coordination between the ESI Funds and other Union and national funding instruments and with the EIB

1. Effective co-ordination and fuller integration of actions across the ESI funds and with other EU and national funding is fundamental in providing a more strategic approach to meeting the common aims and objectives set out in the Partnership Agreement for Scotland. In Scotland alignment is taken to mean one of three options: integration, for example where policy aims and target groups for investment are shared; effective demarcation, recognising the correct role for each fund either by type of area, by activity or by project scale; or complementarity and recognition of the very specialist role of some funds, e.g. specific environmental focus or urban focus, or the scale of skills delivery. The delivery arrangements and mechanisms focus on a thematic rather than a fund/sectoral approach where possible .

2. The recognition that the funds can provide greater impact when combining and/or aligning to effect change and better outcomes for Scotland has resulted in a common approach to planning Programmes, structured around the 2020 themes of 'smart, sustainable and inclusive'. An extensive partnership process involved over 80 organisations in directly proposing, refining and recommending to Ministers the few ideas of scale and significance which would genuinely have an impact on Scotland's ability to deliver Europe 2020.
3. The Operational programmes will be designed around these 'strategic interventions' - projects, programmes or schemes of significant financial scale led by organisations with the capability and scale to manage the EU audit obligations and deliver significant outcomes (Lead Partners). These strategic interventions are considered to be the best opportunities to use ESI Funds to effect appropriate sustainable structural economic and social change. The strategic interventions will generally be long-term, and will be implemented over a number of years and in some cases over the life of the ESIF programmes.
4. The strategic interventions will be expected to have considerable scale, momentum and impact, and provide stable platforms around which significant co-financing and match funding can be committed over extended periods. There are risks with long term strategic interventions; the anticipated outcomes may not be achieved, the match funding may not be available for the entire life of an intervention, and different economic issues and priorities may emerge. Therefore, to ensure the Operational Programmes focus on delivering results and outcomes over the lifetime of the programmes there will be a significant review point, circa 2017, for the programmes. This means that most strategic interventions will be phased so that funds are not committed beyond the review point, (excepting those which incur long-term contracts such as agri-environment schemes) and the programmes can be re-orientated if appropriate.
5. A single Joint Programme Monitoring Committee covering all four EU funds will provide strategic direction and oversight of the separate programmes. Its role will be to ensure all programmes work towards the common strategic framework and shared objectives articulated in the Partnership Agreement. In relation to the EMFF, the Committee may play a role in reporting to the overall UK Committee. The Monitoring Committee will be chaired by the Managing Authorities and contain broad stakeholder representation. Precise regional arrangements for managing the Marine Fund in Scotland have yet to be agreed with the UK Government as the Managing Authority for this UK programme.
6. In addition to the Monitoring Committee, fund specific management fora will be developed for the wide group of stakeholders interested in each EU fund; and where detailed management and assessment is required. Specific regulatory tasks may be formally sub-delegated by the PMC to these groups where appropriate, and where agreed with The Commission. The views from these fora would be reported as appropriate to the JPMC on a regular basis.
7. Information and guidance on the ESI funds and wider EU funding opportunities will be accessible via a website gateway affording stakeholders a clear overview of the role of the different ESI Funds in Scotland. Opportunities for further integration are being explored including the promotion of case studies and best practice and news/updates.

#### **Co-ordination of the ESI funds with other Union and National Funding Instruments and the EIB**

8. The new regulatory framework provides many opportunities to work in a complementary manner with a range of instruments, both national and EU. A range of complementary domestic policy instruments will be used to maximise the benefits of the ESI funds and

include for instance those associated with the Youth Employment Strategy, Skills for Scotland, Community Empowerment proposals, Digital Scotland 2020, the National Food and Drink Policy, the Strategic Framework for Scottish Aquaculture amongst others.

9. The approach to innovation will require full consideration of the offer alignment with the opportunities afforded through Horizon 2020. The focus on Scotland's Smart Specialisation Strategy will provide synergies with Horizon 2020 and Creative Europe through the focus on Scotland's greatest potential growth sectors and technologies, whilst the focus on SME competitiveness will align with the opportunities through COSME. The new Innovation Centres being created by the Scottish Funding Council, with industry partnership, will also be an important aspect of the innovation 'mix'.
10. Resource efficiency is considered a horizontal policy objective for the Scottish Partnership Agreement and the intention is to use LIFE Environment and Climate Action funds to assist in moving this agenda forward alongside the focus on agri-environment in EAFRD. There are also many potential opportunities for synergy with the Green Infrastructure plans.
11. Maximising the use of the Erasmus for All programme to draw talented individuals to Scotland will be an important opportunity, especially with the range of skills requirements highlighted to complement the growth sectors and the low carbon transition interventions. Erasmus for All could also offer Scottish people the opportunity to learn new skills abroad, thereby broadening the skills set available to employers in Scotland.
12. In relation to coordination, the delivery partnerships through which the Scottish strategy for ESI Funds has been developed has helped build in joint working from the start, for example providing an opportunity to see innovation, skills and SME competitiveness as a combined endeavour rather than single programme strands; and allowing regional partners to provide strategic and local responses and solutions within national initiatives and so avoid duplication. As highlighted previously, a Joint Programme Monitoring Committee will be formed to monitor progress of all the ESI Funds and their contribution to the targets and objectives set out in this document. Furthermore, a portal is under development through a partner organisation whereby key information easily accessible across all the ESI funds and relevant information on other EU funds such as Horizon 2020 and ETC is available in a single location.

**2.2** The information required for ex ante verification of compliance with the rules on additionality (based on Article 95 and Annex X CPR)

1. Not applicable – see corresponding section in UK chapter.

**2.3** A summary of the assessment of the fulfilment of applicable *ex ante* conditionalities in accordance with Article 19 and Annex XI at national level and of the actions to be taken, the responsible bodies, and the timetable for their implementation, where *ex ante* conditionalities are not fulfilled

1. Not applicable - see corresponding section in UK Chapter.

**2.4** The methodology and mechanism to ensure consistency in the functioning of the performance framework in accordance with Article 21 of the CPR

1. Not applicable - see corresponding section in UK Chapter.



**2.5** An assessment of whether there is a need to reinforce the administrative capacity of the authorities involved in the management and control of the programmes and, where appropriate, of the beneficiaries, as well as, where necessary, a summary of the actions to be taken for this purpose

1. The Scottish Government acts as Paying Agency and Managing Authority for the ESI Funds. Structural Funds Division have brought the functions previously delegated to Intermediate bodies in-house to ensure the expertise to manage the Funds is retained in the long term. The Agriculture, Food and Rural Communities Directorate has integrated its policy and delivery units so that these remain well-aligned throughout the programme period.
2. In addition to bringing expertise together in-house, the Lead Partner delivery arrangements outlined in section 2.1 have been determined through the need for better alignment and co-ordination of the funds with national policy direction, particularly as Scottish programmes are relatively limited in size. It is also in response to lessons learned from the 2007-2013 programming periods and ensuring delivery organisations have the capacity and resources to administer the funds efficiently and effectively.
3. These issues arising from the evaluation work on lessons learned included:
  - Difficulties with recording and accounting for costs especially for revenue based costs across the funds;
  - Resources required for administration and audit was out of proportion with the size and scale of the projects and, in some cases, for the size of applicant;
  - Procurement was under-utilised as a method of gaining best value and reducing administrative risk and burden;
  - Strategic delivery models worked well in delivering strategic approach under the Structural Funds; and
  - Better guidance and support for quality project development is required for EAFRD and EMFF.
4. By focusing the administrative requirements on the larger organisations with more experience and systems and using more effective administrative tools, as outlined in section 2.6, we will ensure that we have a more robust and effective control system, as well as the ability to better align EU and domestic funding initiatives aimed at the same outcomes.
5. It is also clear that guidance, staff training, national rules, eligibility criteria and IT systems must be ready for Programmes to commence, and must be clear about eligibility, the purpose of any support, the expected outcomes and the associated requirements around safe management of the Funds. Both EAFRD and Structural Funds will be supported by new IT platforms, both of which will allow better real time monitoring and reporting than 07-13 systems, and which in the case of the Rural build will also manage Pillar 1 of the Common Agricultural Policy.
6. Staff training forms an integral part of implementation and management plans. For Structural Funds, this will involve developing and training for new roles around managing relationships with Lead Partners, and ensuring that project management, compliance and verification is ongoing in support of the longer-term interventions foreseen.
7. For EAFRD, staff will be focused and specialised in assessing and assisting applicants, e.g. agricultural staff will assess agricultural applications, environmental agency staff will

assess environmental applications, forestry experts will assess forestry applications, and experts on business development will assess business development applications. Joint teams will undertake integrated assessments where this is required to ensure the delivery of multiple benefits. LAG co-ordinators will be supported by central guidance and a facilitated network.

8. ESF and ERDF will utilise Technical Assistance to fund the new data management system, administration of the funds and evaluation work, including support for Lead Partners for any additional work they have not previously has to carry out in the course of Structural Funds administration. EAFRD will be using Technical Assistance to fund an expanded and improved National Rural Network, and to provide funding towards the overall cost of the new IT system.

## **2.6 A summary of the actions planned in the programmes, including an indicative timetable, to achieve a reduction in the administrative burden for beneficiaries**

1. A range of improvements will combine to effect benefits across all the funds and especially offer more resource efficient delivery and allow more concentration on what is being delivered and how to best achieve the results and objectives we want and need from the ESI funds across Scotland. These will all be fully implemented an in place prior to programme commencement unless otherwise stated.

### **National/Regional/Local/Community Planning**

2. The territorial model developed will assist major public sector agencies in combining efforts, reducing administration and working more effectively across the range of appropriate agencies and funds. This builds on work taking place for domestic funding and policy reasons, and will therefore be in place prior to programmes commencing.

### **Increased use of procurement contracting and commissioning**

3. Delivery partnerships, LAGs and FLAGs will be encouraged to commission and contract as much as possible, and to avoid splitting the Funds into very small amounts. This allows the programmes to deliver more strategically and effect change more quickly, as well as keeping consistent and verifiable records of funding decisions. Guidance on the detailed operation of the model will be available in 2014.

### **Use of lead partners**

4. A small number of lead partners will be charged with delivering the objectives of the Partnership Agreement nationally and locally. These organisations will utilise a range of options including direct delivery through their own schemes, contracting or open and transparent commissioning, and will be responsible for compliance with national rules and the Regulations throughout their delivery chain. The governance structures associated with this lead partner model will be developed in early 2014 for operation by mid 2014, and will include checks on the capability of potential Lead Partners to fulfil this role in accordance with Article 124 of the Common Provisions Regulation.

### **Increased use of simplified cost options**

5. Arguably the greatest administrative burden has been on smaller projects and revenue projects which found it onerous to track a lot of the smaller costs associated with delivery to meet requirements. Widening the use of unit costs, especially for training and

revenue projects, and increasing the variety of simplified cost options to extend to ESI funds outwith ESF will assist in refocusing efforts on delivery of outcomes, rather than tracking minute expenditure. A number of simplified cost models will be incorporated into the National Rules during 2014, and will be in place prior to programme commencement. These will be variable by region for those areas with permanent geographical handicaps; and by client group, with increased rates of support available for harder-to-reach client groups.

### **Increased use of financial instruments**

6. In the period 2014-2020, Financial Instruments will be considered for SME competitiveness, low carbon economy, ICT/Digital and R&D&I. However, there is also scope for financial engineering which would benefit social inclusion (e.g. through micro-credit) and potentially other policy areas as the programmes are subjected to mid-term reviews. There may also be potential for loan fund to help rural community groups and the third sector. Financial instruments could span all the funds and will be developed to work effectively across all sectors of interest, and cater for a broader range of businesses. The development of financial instruments will start in 2014 and it is expected that some will be operational by 2015.

### **Improved IT systems**

7. The timetable for the new EAFRD IT system will see initial launch in 2016, with early support available for programme launch in 2015. Although this means not all aspects will be ready for the beginning of the programme, Scottish Government is ensuring that the transfer from the current IT system to the new is planned to ensure effective data migration can take place.
8. The Structural Funds system will be ready for programme implementation in 2014 and has been developed using lessons learned from previous systems and provides a platform for data exchange, data interrogation and reporting. It is designed around the concept of strategic interventions operated by Lea Partners, and in combination with simplified cost options should allow the automation of some verification checks, as well as better risk-based sampling for full compliance checks and visits.

### **Improved guidance and support**

9. Improved guidance and support will be complete by the early summer 2014, prior to programme launches.

### **Staff training**

10. Relevant staff training on all Funds will be delivered during 2014 prior to programme launches, and completed before the end of 2014. Refresher training will be offered throughout the programme period as required.
11. These tools and methods should result in a reduction in the administrative burden for both applicants and the Managing Authorities. These will be further enhanced through increased co-ordination across the funds, sharing of best practice and collective utilisation of the outcomes from a number of evaluations and studies supported through technical assistance.

12. A website to access information on all EU funds in Scotland is also under consideration. This may include an online basic enquiry system applicants can use to then be directed onward to the correct fund, scheme, lead partner, project etc. This should be up and running for the launch of the programmes.

3 DESCRIPTION OF THE INTEGRATED APPROACH TO TERRITORIAL DEVELOPMENT SUPPORTED BY THE ESI FUNDS OR A SUMMARY OF THE INTEGRATED APPROACHES TO TERRITORIAL DEVELOPMENT BASED ON THE CONTENT OF THE PROGRAMMES (ARTICLE 15(2) (A) CPR)

3.1 The arrangements to ensure an integrated approach to the use of the ESI Funds for the territorial development of specific sub-regional areas (Article 15 (2) (i) CPR)

1. The strategic interventions that are delivered across the Partnership Agreement will have the ability to respond to territorial issues and so, whilst representing a strategic approach, will provide the ability to be locally responsive. The delivery arrangements outlined in Chapter 2 will provide the foundation for this integrated approach to territorial development. It has already seen national and local partners assess how each region of Scotland can be supported to reach Europe 2020 by tailoring national approaches, for example developing responses to meet local labour market needs and opportunities. Lead Partners will work with local and regional partners to consider the geographic, demographic and economic threats and opportunities when developing strategies and solutions. In providing access to a range of funds, these local partnerships will be able to focus on the most effective policies for an area.
2. Initiatives on skills, business development and innovation are also all driven by principles of Smart Specialisation – selecting the strongest sectors to develop – and by regional analysis and exploitation of the asset and human capital base. Rather than supporting all activity broadly, the Funds will support more intensive activity in each region or sector which best strengthens Scotland’s competitiveness and social inclusion opportunities.

1.1.7 3.1.1 Community-led local development (Articles 32-35 CPR, Article 9 ETC, and the EAFRD, ESF, EMFF and ERDF regulations)

3. In Scotland, we envisage a symbiotic relationship whereby Community Led Local Development (using EAFRD & EMFF) complements, supports and reinforces the more strategic local and national approaches (under all funds). Local Development Strategies (LDS) will reflect what comes out of the engagement with a broad range of actors (including communities and businesses) and be implemented as a development tool to reinforce territorial coherence and contribute to the long term sustainable development of an area.
4. We want to see the LEADER approach during the next programming period (2014 to 2020)
  - Strengthen the role of the Local Development Strategy (LDS) as one of the key tools that meet local territorial objectives on a holistic basis;
  - Be more flexible, innovative and responsive to local needs;
  - Provide greater transparency of what the funds do and clarity about the respective roles of the parties involved (e.g. Paying Agencies, Managing Authorities, Local Authorities, other decision making forums, Local Action Groups, businesses and communities);
  - Focus on animation and capacity building in local development actions and decision making;
  - Strengthen non-public sector participation; and
  - Strengthen networking, cooperation, knowledge transfer and exchange.
5. To help achieve this we are proposing to ensure that:

- Local Development Strategies demonstrate how locally identified priorities will also reflect the priorities of the EU 2020, the Partnership Agreement and the relevant EU programmes;
  - Single Local Development Strategies (where appropriate) cover both coastal and rural areas (using both EAFRD and EMFF);
  - Local Development Strategies include larger settlements (only where they can demonstrate a coherent relationship with their rural or coastal hinterland; and
  - Mechanisms are put in place to allow LDSs to work closely with CPPs and other lead partners to reinforce alignment of activity and seek opportunities (using any of the ESI funds) for either party to roll out complementary actions.
6. CLLD will contribute most directly towards the Promoting Social Inclusion and Combating Poverty thematic objective. CLLD will also contribute to SME Competitiveness, Low Carbon Economy (move toward carbon clever communities) as well as Environment and Resource Efficiency.
  7. Specifically, we would expect Local Development Strategies to be able to demonstrate how they will meet one or more of the six EAFRD priority areas and in doing so support innovation, knowledge transfer and cooperation.
  8. We would also expect LDS to include actions that release capacity and contribute to:
    - driving community action on climate change;
    - enhancing rural services and facilities, including transport initiatives;
    - enhancing natural/cultural heritage, tourism and leisure;
    - supporting food and drink initiatives (e.g. short supply chains, community food);
    - building co-operation with other LAGs in Scotland, UK and Europe;
    - equal opportunities; and
    - sustainable development of fisheries areas.
  9. Local Development Strategy preparation has been underway in Scotland since June 2013. 21 prospective LDS partnerships across Scotland are currently in the process of engaging with their communities and identifying priorities. Business plans will be developed during summer 2014 prior to submission of final LDS and business plan to Scottish Government in September 2014.
  10. Whilst ERDF and ESF will not be using CLLD, as per the regulatory definition, it will be using Community Planning Partnerships (CPP) as a delivery vehicle for some key interventions including the employability pipeline. CPPs include a range of public authorities, agencies and private sector and community representatives.

#### 1.1.8 3.1.2 Integrated Territorial Investments

11. As outlined earlier, the strategic interventions are designed to be able to respond to local needs and variations across Scotland whilst being considered on a national scale.
12. Scotland includes particularly territories that are severely disadvantaged by a range of geographical, demographic and social handicaps which may require a more targeted approach. Consideration has been given to whether these territories (namely the Highlands and Islands transition region; and the South West Scotland region which qualifies for the Youth Employment Initiative and is the most socially deprived in Scotland) would benefit from an integrated territorial investment. However, for the scale of investment under the Structural Funds in Scotland, and with the need to ensure that approaches in these areas align with and benefit from national strategic approaches, the ITI is not felt to add considerable value.

13. Tailoring of national strategic interventions is being instead being agree with the H&I partners, and dedicated governance arrangements will be in place to ensure that national approaches deliver for the region throughout the lifetime of the programmes. A parallel governance group will oversee the implementation an effects of the YEI in South West Scotland.

1.1.9 3.1.3 Sustainable urban development, including the principles for identifying the urban areas where integrated actions for sustainable urban development are to be implemented and an indicative allocation for these actions under the ERDF at national level

14. As a Member State with many devolved responsibilities, the formal designation of a single UK-wide body to manage sustainable urban development is not feasible for the UK. However, both UK and Scottish Government policy supports the development of cities and city regions as drivers of growth, and an approach is therefore planned which follows the spirit of the regulations and in line with the UK devolution settlement.

15. The policy underlying urban development and regeneration has changed considerably over the past decade in Scotland, and is now about much more than physical regeneration of places. It aims instead to foster a broader development, of place, economy and people, and to have multiple policy areas deliver benefits rather than to have a specific an isolated funding approach. There are two major areas of activity under the ESI Funds which will support these aims, and which will enable genuine sustainable development in Scotland's cities.

16. The first is developing our urban green infrastructure. A holistic approach will see the development, management and maintenance of green and blue corridors (such as wildlife corridors or improvements to urban waterways) in and between urban areas to improve environmental an air quality, and improve access to green space. The development of the infrastructure itself will be closely tied to local employability and social inclusion measures, giving people training, volunteering and work opportunities in transforming their own communities.

17. In addition, the 7 Scottish Cities have established the Cities Alliance aimed at promoting better multi-city working, and at the cities collectively becoming an engine of growth for Scotland. The Cities Alliance is underpinned by clear objectives and a vision of what a high-quality Scottish city should look like and are pursuing this as 'the 8th city' to raise their collective international profile by improving connections an expertise sharing between all the cities. The Cities Alliance will have a strong collective role in selecting the operations to be implemented in each City, with a clear focus on 'smart cities' technology usage and innovation.

18. Taken together these initiatives will help change the way people use, live in and engage with their urban environment.

1.1.10 3.1.4 The main priority areas for cooperation, under the ESI Funds, taking account, where appropriate, of macro-regional and sea basin strategies

19. The entire approach to planning the use of ESI Funds in Scotland is co-operative and collaborative, encouraging partners to work together and share resources to deliver bigger impacts. However, there are specific areas where individual operations need to act at a more collective level.

20. A key area for EAFRD is enabling cooperative action to ensure ecosystem scale



projects can be identified, developed and implemented. Through cooperation, ecosystem or landscape scale projects can be enabled more effectively which can help more successful delivery across a range of outcomes. For example a project that covers all of a priority catchment area in order to secure improvements in water quality, naturally manage out or manage down flood-risk and improve biodiversity, or reduces habitat fragmentation.

21. To ensure this priority area is progressed more widely than under the current programme Scottish Government will develop a specific support scheme which, using the powers in the RD regulations, will provide a route for farmers, land managers, NGOs and other interested groups to come together and form operational groups to discuss and develop a project. One of the most significant barriers to the success of a cooperative project is the lack of central coordinating point. The cooperative scheme will fund the provision of project officers/innovation brokers who will assist the various parties in animating, developing and implementing the project. This scheme will be focused on land based projects to benefit agriculture, the environment and the climate.
22. EAFRD will also embed cooperative activity into the LEADER approach, and will use the National Rural Network to facilitate cooperative working between LAGs in Scotland, the UK and abroad. The National Rural network will also aim to develop thematic working groups, allowing groups to form to discuss key issues and solutions in local areas. These groups could go on to form operational groups and access support to take a project forward under the banner of the European Innovation Partnership.
23. By linking into the EIP EAFRD will ensure that learning from across Europe can be disseminated throughout Scotland, and transferred to on the ground improvements in working practices. We will also ensure the rich resource of learning available in Scotland, and the best practice demonstrated through development of innovative projects in the new programme, can be shared across Europe.

### **European Territorial Co-operation**

24. A collective aim of ETC programmes will be to promote equal distribution of R&D and innovation capabilities across the regions to improve competitiveness, growth and investment opportunities. Such joint operations offer the opportunity to improve access to scientific and technical knowledge across borders by fostering better linkages to established R&D facilities and increased access to international centres of excellence in partner regions. They are also effective platforms for the exchange of good practice and establishing cooperative industry-academia networks, and can assist in coordinating activities for raising the international profile of innovation clusters and SME networks, supporting public-private and transnational partnerships, and promoting the innovative use of new and existing knowledge. This mirrors the Scottish approach to innovation and competitiveness through the mainstream funds, and is an area where Scotland could therefore provide leadership.
25. One particular area for ETC prioritisation will be to develop inter-regional strategies to exploit the renewable energy potential of the marine and coastal environment. Interventions include joint awareness-raising measures and integrated concepts and action plans to increase energy efficiency and help promote responsible and balanced production and consumption patterns. The transfer of knowledge in alternative and renewable energy management patterns and developing new approaches to efficient and sustainable utilisation of resources will help identify the means to reduce climate change impact at a regional / community level, supported by the development of small scale local renewable energy solutions.
26. Scottish stakeholder contributions to ETC actions around the North and Atlantic seas

align with the Commission's agenda on Blue Growth, with particular participatory strengths in marine environment, offshore renewables and coastal tourism. There is considerable scope for more strategic and coordinated efforts between ETC funds that operate within these sea basin territories, building upon strong, mutually beneficial relationships, shared priorities and common blue growth goals. These funds can be one of the key drivers for governance, policy planning and action setting of blue growth activities with neighbouring maritime regions in areas including: marine research and the protection of the ocean's biodiversity; actions that promote the sustainable use of ocean resources, particularly in the context of blue biotechnology; commercial exploitation of offshore renewables; and increased identification of the opportunities around eco-innovation.

27. ETC funds can also focus on improving the interoperability and intermodality of passenger and freight transport. This includes promoting sustainable transport connections to develop more energy-efficient modes of travel and make more effective use of existing transport infrastructure capacity. One example would be the use of advanced real-time transport and navigation information systems to improve transnational connections to transport flows. Such actions also promote the harmonisation of standards and compatibility of ICT transport technologies across national borders, and widen the ability for replacing physical mobility through virtual exchanges.
28. ETC programme and project partners will continue to work alongside other regional players to deliver positive contributions in support of Europe's active aging agenda, particularly in remote and rural areas where demographic challenges are acutely shared. They are one of the mechanisms for the application of research data to develop innovative on-the-ground actions that help tackle shared societal changes across territorial boundaries particularly around service care in the health and social sectors. ETC funds will therefore also be utilised to support the uptake of inter-regional digital platforms in addressing interoperability issues, drive usability and acceptance, and facilitate the shared learning from planning and developing targeted ICT services.
29. Valuing the links formed through natural and cultural heritage can enable coastal and rural communities to extend geographical connections and the socio-economic benefits attached to these, and ETC contributions could assist in extending rural and coastal community action plans beyond their local dimension.
30. The table below sets out the likely programme contributions to thematic objectives:

|  |  |  |
|--|--|--|
| <p><b>Cross Border</b></p> <ul style="list-style-type: none"> <li>• Research and Innovation</li> <li>• Environmental Protection and Resource Efficiency</li> <li>• Social Inclusion and Combating Poverty</li> </ul> | <p><b>Atlantic Area</b></p> <ul style="list-style-type: none"> <li>• Research and Innovation</li> <li>• SME Competitiveness</li> <li>• Low Carbon Economy</li> <li>• Environmental Protection and Resource Efficiency</li> <li>• Climate Change Adaptation</li> <li>•</li> </ul> | <p><b>North West Europe</b></p> <ul style="list-style-type: none"> <li>• Research and Innovation</li> <li>• Low Carbon Economy</li> <li>• Resource and Materials Efficiency</li> </ul>   |
| <p><b>North West Europe</b></p> <ul style="list-style-type: none"> <li>• Research and Innovation</li> <li>• Low Carbon Economy</li> <li>• Resource and Materials Efficiency</li> </ul>                               | <p><b>Northern Periphery</b></p> <ul style="list-style-type: none"> <li>• Research and Innovation</li> <li>• SME Competitiveness</li> <li>• Renewables and Energy Efficiency</li> <li>• Protecting natural and cultural heritage and resource efficiency</li> </ul>              | <p><b>Interreg Europe</b></p> <ul style="list-style-type: none"> <li>• Research and Innovation</li> <li>• SME Competitiveness</li> <li>• Low Carbon Economy</li> <li>• Environmental Protection and Resource Efficiency</li> </ul> |

## Atlantic Strategy

31. Scotland recognises the efforts of the Commission to promote sustainable economic growth, employment and regional cohesion through its Blue Growth Agenda, which includes separate sea basin strategies. Scotland has taken an active role in the development of the Atlantic Strategy and shares the Commission's objectives of ensuring the waters around Scotland contribute to sustainable economic growth. Many of the priority economic activities identified by the Atlantic Strategy are pertinent to Scottish waters and the timing has coincided with the Scottish Government consulting on the development of a National Marine Plan which establishes a process for the sustainable development of the marine area.

32. The following investment priorities have been identified for Scotland:

- Ecosystem management;
- Reducing Carbon footprint;
- Seabed resources;
- Risk and Emergencies; and
- Inclusive Growth.

33. EMFF funds will support both the EU Atlantic Strategy and the delivery of Scottish Government's own priorities. In particular:

- Fostering CFP reform, through a wide range of measures;
- Capacity building in marine research, technology and maritime skills;
- Increasing ocean observation capacity;
- Ensuring Good Environmental Status of the marine environment;
- Safety and security of seafarers;
- Measures to adapt to climate change;
- Accelerating marine renewables; and
- Developing new marine sectors, (deep sea mining, marine biotechnology).

34. The proposed interventions through EMFF articles are set out in the table below. Specific project initiatives are under consideration, and are included where relevant in

the EMFF Operational Programme.

| THEME   | EMFF                       |
|---|----------------------------|
| The importance of marine planning, and specifically marine spatial planning (MSP)   | Art 28, 45                 |
| The importance of the ecosystem approach to management of biological resources, including commercial fisheries stocks   | Art 34, 35, 36, 37, 38, 39 |
| The importance of growing aquaculture in Scotland – recognising that: <ul style="list-style-type: none"> <li>• There is ample capacity for expansion without having to move into truly ‘offshore’ environments</li> <li>• That individual salmon farming sites need to be larger and more efficient – along the lines the industry has adopted in Norway</li> </ul> | Arts 45 - 56               |
| The importance of assuring Good Environmental Status under the Marine Strategy Framework Directive (MSFD), as well as upholding obligations under Natura 2000 and OSPAR   | Arts 34 – 39, 52-54        |
| Marine / environmental tourism  | Art 31, 32, 47, 64-67      |
| Development of coastal communities  | Art 31, 32, 47, 64-67      |

35. ERDF may also contribute through supporting development in marine and off-shore energy and innovation; and through training and diversification and business development including in coastal and marine communities and sectors. The geographical features of Scotland make this particularly likely, with strong potential in wind and tidal power, as well as long-established expertise in off-shore engineering and servicing.

1.1.11 3.1.5 Where appropriate, an integrated approach to address the specific needs of geographical areas most affected by poverty or of target groups at highest risk of discrimination or social exclusion, with special regard to marginalised communities, persons with disabilities, long term unemployed and young people not in employment, education or training

36. The inclusive growth plans outlined in chapter 1 highlight the territorial and individual issues affecting deprived and fragile areas and target groups. An integrated approach will be taken to tackle poverty and social exclusion based on:

- a community centred approach focused on sustainability, locally identified issues and solutions and targeted on fragile and disadvantaged communities; and
- people and household centred approach using the enhanced employability pipeline and strategic interventions to tackle financial inclusion

37. The Scottish Index for Multiple Deprivation will provide a basis on which areas will be identified and will be supplemented by other appropriate indices (such as the Highlands and Islands Enterprise fragile map) to identify target areas. People centred actions will not be exclusively geographically targeted but rather focused on those that need support.

38. These two approaches are not mutually exclusive and will work together to form a coherent package of support at an individual, family, household and community level. Issues such as food and fuel poverty, social and childcare, financial inclusion and

employment opportunity will be tackled. Whilst the ERDF and ESF will be very focused on these measures, the LEADER approach will be broader and allow the funds to work together using the local growth models highlighted previously.

| <b>Specific target group or geographical area</b>                 | <b>Short description of the needs</b>                               | <b>ESI Funds that will be used (ERDF, ESF, CF, EAFRD, EMFF)</b> | <b>Main types of actions to be supported</b>  | <b>Programme</b>                     |
|---|---|---|---|--------------------------------------|
| Young people not in employment, education or training             | Employability, education, skills, work experience                   | ESF   | Training, apprenticeships, recruitment incentive programmes, development of vocational training opportunities - an intensive and territorial approach will be undertaken                          | Youth Employment Initiative Scotland |
|   |   | ESF   | Employability support through pipeline approach, recruitment incentives, apprenticeships, training  | ESF Scotland                         |
|   |   | ERDF  | Support for companies with growth potential within growth sectors to align job opportunities with skills support  | ERDF Scotland                        |
| Long Term Unemployed and individuals facing multiple disadvantage | Financial inclusion, skills, employability, childcare support       | ESF   | Tailored support through the employability pipeline focused on removing barriers to active participation, increasing skills and job opportunities through access to training and work placements. | ESF Scotland                         |
|   |   | ERDF  | Support for companies with growth potential within growth sectors to align job opportunities with skills support  | ERDF Scotland                        |
| Persons with Disabilities   | Employability, access to skills training, social inclusion measures | ESF   | Measures to support employability and social inclusion through a tailored approach using the enhanced and expanded employability pipeline focussing on removing barriers to active participation  | ESF Scotland                         |

| Specific target group or geographical area       | Short description of the needs   | ESI Funds that will be used (ERDF, ESF, CF, EAFRD, EMFF) | Main types of actions to be supported  | Programme     |
|--|--|--|--|---------------|
|  |  | ERDF   | Support for companies with growth potential within growth sectors to align job opportunities with skills support   | ERDF Scotland |
| Workless Households                              | Financial inclusion, employability, childcare support, social inclusion measures | ESF  | Intensive face-to-face support and financial inclusion measures, employability support through pipeline approach, alleviation of any barriers to employment including childcare through increased access and financial support | ESF Scotland  |
| Working households suffering from severe poverty |  | ESF  | Intensive face-to-face support and financial inclusion measures, childcare through increased access and financial support  |               |

39. Where appropriate, an integrated approach, to address demographic challenges of regions or specific needs of geographical areas which suffer by severe and permanent natural or demographic handicaps, as defined in Article 174 of the Treaty

40. The challenges of the types of areas highlighted in Article 174 of the Treaty will be addressed through the delivery mechanisms outlined previously, which will allow local delivery partnerships to identify the key needs and issues that affect growth in an area and provide access to the ESI funds to provide appropriate responses. The specific challenges for Highlands and Islands include:

- Demographic challenges - aging population and outward migration of younger population;
- Dispersed population - difficulty in tackling structural issues and need different approaches;
- Lower Incomes;
- Smaller business base, reliance on primary sectors in more remote areas;
- Innovation capacity;
- Digital and mobile telecoms access and exploitation;
- Access to education;
- Underemployment;
- Disguised unemployment (people are leaving the area rather than staying and claiming); and
- Transport issues.

41. These needs will be addressed by both strategic interventions at a national level, tailored to meet the specific needs of the region, and by more focused interventions developed and delivered at a Highlands and Islands level only. These are likely to include business infrastructure support and community sustainability measures to reflect the particular demographic and business challenges described above.

#### 4 ARRANGEMENTS TO ENSURE EFFICIENT IMPLEMENTATION OF THE PARTNERSHIP AGREEMENT AND PROGRAMMES

4.1 An assessment of the existing systems for electronic data exchange, and a summary of the actions planned to gradually permit all exchanges of information between beneficiaries and authorities responsible for management and control of programmes to be carried out by electronic data exchange

42. Work is underway to develop data management systems for delivering the EAFRD, ESF and ERDF programmes in Scotland.

43. As part of the analysis phase of the ESF and ERDF IT delivery project there has been extensive communications with internal and external stakeholders which captures lessons learned and SWOT analysis on the current Eurosyst data management system. Scottish Government also commissioned, through a technical assistance project, an evaluation of Lead Partner IT data management systems which may allow the development of additional functionality to permit the electronic exchange of output and beneficiary information between lead partners and managing authority.

44. Stakeholders have found the current systems complex and challenging with a common request to tackle their administrative burden. With this in mind we intend to deliver a data management system that can provide a platform to measure results delivered by units of outcome and payment upon delivery of results, and which has a more intuitive user interface. This is structured around the Lead Partner delivery approach, with most management carried out by the larger organisations, and with user-specific roles limiting the amount and types of interaction required with information management systems.

45. The ERDF and ESF data management systems are being developed with a clear view to building flexibility within the data management system, in line with e-cohesion policy, for the different funding options including ESF, ERDF capital and ERDF revenue, unit and standard cost methodologies and financial engineering projects.

46. In parallel a significant reworking is being undertaken of the system to manage both pillars of the Common Agricultural Policy. This is being built using agile technology to allow real-time monitoring and reporting, and being released in phases to ensure all testing and functionality is complete prior to usage. This is expected to be released for Pillar 2 in phase starting from 2015.