

OPERATIONAL PROGRAMME

**EUROPEAN SOCIAL FUND:
2007-2013**

LOWLANDS & UPLANDS SCOTLAND

FINAL

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1 INTRODUCTION

The European Social Fund (ESF) seeks to address social inequalities within and across regions by improving the general performance of the labour market and, in particular in relation to marginalised groups. It is intended to help regions increase their competitiveness by increasing employment rates, preventing people from dropping out of the labour market, and increasing productivity through improved skill levels.

In March 2000, the EU leaders agreed the Lisbon strategy, which committed the EU to become by 2010:

“The most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment.”

The achievement of this goal is seen as essential if Europe is to respond to the challenges of globalisation and competition from other parts of the world. Scotland is no less ambitious in its goals aimed at ensuring that the Scottish Executive and its partners work together to make a real difference to the lives of all the people living and working here to ensure they fulfil their potential and contribute to and benefit from a high-earning, knowledge-based economy.

In working together to achieve these goals it is important to be aware that for each person who moves into sustained employment, the effect is more widespread than just getting a job – it affects their health, their family, their friends, their neighbourhood and brings about economic benefits, with less dependency on welfare benefits and contributing to the economic growth and competitiveness of Scotland. This is not just or even mainly about numbers – it is about improving the lives of individuals, families and communities.

The following Operational Programme provides the framework for the spending of the European Social Fund (ESF) for the Regional Competitiveness & Employment Programme for Scotland for 2007-13. The Programme covers the ‘Lowlands & Uplands Scotland’ area, defined as the whole of the NUTS 2 areas for Eastern Scotland, North-East Scotland and South-Western Scotland (that is, all of Scotland apart from the Highlands & Islands, which are covered by programmes under the Convergence Objective). It will complement the European Regional Development Fund Programme under the Regional Competitiveness & Employment Objective for the same area.

The Operational Programme is divided into several sections following this Introduction:

- Socio-economic background: A summary of the key strengths, weaknesses, challenges and opportunities for the eligible area within the context of the Structural Funds contribution to achieving the Lisbon Agenda goals, setting out the main issues for the Programme to address.
- Policy background: A summary of the policy context for addressing the issues identified in the socio-economic analysis and the contribution of lessons from earlier Structural Funds programmes to the 2007-13 Programme and identification of where Structural Funds can provide added value in contributing to these different objectives.
- Strategy, Objectives and priorities: A detailed description of the Programme's overall vision, its objectives and the three priorities through which it will tackle the issues identified in the socio-economic analysis within the policy context set out above as well as the use of Programme technical assistance and the categorisation of activities in line with Lisbon 'earmarking'.
- Financial arrangements: The financial allocation tables for the Programme.
- Co-ordination with other funds: A description of how the European Social Fund will complement other key EU funding in the region, particularly the European Regional Development Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund.
- Implementing provisions: A description of key aspects of managing and delivering the Programme, including the roles and responsibilities of the Managing, Paying and Audit Authorities, key intermediary bodies and the Programme Monitoring Committee.
- Cross-cutting themes: A description of how Equal Opportunities, Sustainable Development and Social Inclusion will be mainstreamed as underpinning horizontal themes throughout the Programme.
- Evaluation, monitoring and reporting: The evaluation strategy for the Programme, setting out how the Programme will be monitored and the processes for reporting and evaluation.

In addition, there are a number of Annexes covering:

- acronyms and references;
- summary of the drafting of the Programme and engagement with partners;
- summary of the ex-ante evaluation report for the Programme; and
- summary of the Equal Opportunities Impact Assessment for the Programme.

2 SOCIO-ECONOMIC BACKGROUND

This section provides an evidence base to educate the development of the new ESF Programme in Lowlands & Uplands Scotland for the period 2007 to 2013. It contains:

- analysis of the main relevant features – and trends – of the region;
- identification of the region's main needs with particular emphasis on key spatial variations within the region; and
- a summary SWOT analysis – this will identify a series of clear challenges/needs that will feed directly into Chapters 3 and 4.

The analysis begins with general background context-setting for the region's key demographic, economic and other relevant trends. It then provides more detailed analysis under several headings:

- employment and employability, focusing on the size of the workforce (and the barriers to different groups being able to participate in the labour market);
- workforce skills, covering the skills issues relating to different groups in the workforce; and
- lifelong learning, covering the region's capacity for addressing the employment and skills development challenges through training and lifelong learning.

An assessment was done by the ex-ante evaluator as to whether the ESF programme required a Strategic Environmental Assessment. The evaluator concluded that this was required for the ERDF programme for this region, but not for the ESF Convergence Programme. Consequently, an analysis of the environmental situation of the region is not contained in this document.

The analysis is not meant to be a comprehensive review of the Scottish economy, but a focus on a specific set of market failures which Structural Funds can help to address within the framework of the Lisbon goals on growth and jobs. Some important elements of wider economic development have not been examined in detail because Structural Funds under this Objective cannot provide significant support to address the issues adequately. The role of the Lisbon Agenda as the key driver in the development of the Programme should be emphasised – the Structural Funds have to make clear, value-added contributions to the EU's goals of improving economic growth and jobs within challenging timescales. Moreover, the analysis focuses on aspects of socio-economic development where limited Structural Funds support can make significant differences.

The analysis also covers both Scotland as a whole and at a regional level. Using Scottish figures is unavoidable in many cases because of the level at which figures are collected – however, as the Lowlands & Uplands region includes the bulk of population and economic activity, it remains a strong indicator of the issues facing the region. Regional statistics are given at NUTS 2 and NUTS 3 level. It is worth noting that the NUTS 2 regions are:

- North-East Scotland (including: Aberdeenshire, City of Aberdeen and North-East Moray);
- Eastern Scotland (including: Angus and Dundee City, City of Edinburgh, Clackmannanshire, East Lothian, Falkirk, Fife, Midlothian, Perth and Kinross, Scottish Borders, Stirling and West Lothian); and
- South-Western Scotland (including: parts of Argyll & Bute, City of Glasgow, Dumfries and Galloway, East Ayrshire, East Dunbartonshire, East Renfrewshire, Inverclyde, parts of North Ayrshire, North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire and West Dunbartonshire).

Where specialised sources of data/research are used, these are cited in the text with the full references listed in the annex. General sources of statistics used in the analysis include: the Scottish Economic Statistics series, the Scottish Economic Report and the General Register Office for Scotland (GROS).

2.1 General Background

Population

Before providing a detailed analysis of the region's main economic and social features, background statistics are provided here. In 2004, the population of the LUPs region was 4.711 million people, or 93% of the population of Scotland as a whole, an upward trend on previous years. Nevertheless, in terms of population change, there has been considerable variation: areas that have shown significant population growth since 1995 include West Lothian (10%), East Lothian (6%) and Stirling (5.5%), while those showing contraction include Aberdeen City (8%), Inverclyde (7.3%) and Dundee City (6.7%). The majority of the population are concentrated in the so-called Central Belt area around and between Glasgow and Edinburgh.

According to the General Register Office for Scotland, the population for Scotland as a whole is set to continue to rise to a peak of over 5.1 million in 2019 before slowly declining. At present, children aged 15 and under accounted for 19% of the population, as do people of retirement age. However, the number of children aged under 16 is projected to decrease by 15% from just under a million in 2004 to 790,000 by 2031 for Scotland as a whole. This is contributing to the number of working-age people falling by 7% from 3.18 million in 2004 to 2.96 million in 2031. At the same time, the number of people of pensionable age will increase by 35% from 0.97 million to 1.31 million over the same time period. The combined trends will increase labour demand pressures in the regional economy and suggest that policy will need to focus on how the labour market can be expanded.

One counter trend to population decline has been migration. Again, according to General Register Office statistics from mid-2005 population estimates for Scotland as a whole, in the year to mid-2005, there was a net migration gain of around 19,000, reflecting a net gain of around 12,500 people from the rest of the UK, a net gain of around 7,300 from overseas (including asylum seekers). The latter gain has

represented a new trend in recent years with significant numbers of migrants coming from new Central and Eastern European Member States of the EU, particularly Poland. Migrants tend to be much younger than the general population with 69 % (overseas) of in-migrants aged 16-34 as compared to 24% of the Scottish resident population. Although potentially representing an injection of new skills into the regional labour market, many of the overseas migrants have substantial skills challenges relating to English language and 'converting' overseas skills qualifications into recognisable qualifications for Scottish employers (an issue relating as much to employer attitudes as to the nature of the qualifications themselves).

GDP

GDP at basic prices for the LUPS region in 2003 was £74,298 million. The main contributing regions to GDP have been the major metropole areas, particularly the cities of Aberdeen, Edinburgh and Glasgow. In recent years, GDP growth has been improving, but the economy as a whole continues to perform less well than the wider UK economy.

Productivity performance lies at the heart of regional competitiveness. As Chapter 3 will show, it has also been identified as the key challenge for economic development by the Scottish Executive. If Lowlands & Uplands Scotland is to be able to contribute to Lisbon Agenda targets, productivity growth will be a key aspect of economic development actions.

Productivity in Scotland is low and declining relative to the UK. In 2003, for Scotland as a whole, gross value added per head of population was 96% of the UK average, having fallen from 101% in 1995. Within the LUPS region, there is considerable variation in gross value added, ranging from 160% of the UK average in the City of Edinburgh, reflecting a concentration of high-value economic activities, especially financial services, to 62% in East and West Dunbartonshire and the eastern parts of Argyll & Bute. Other areas with low figures include Clackmannanshire/Fife, East and North Ayrshire, East Lothian/Midlothian, and the Scottish Borders – all are areas whose performance relative to the UK average had decreased since 1995. The worst performing regions share similar traits. These are regions that have lost more employment in manufacturing and agriculture than the rest of the Scottish economy; and manufacturing and services in those regions have systematically underperformed the Scottish average in terms of GVA per employee over the past decade.

Table 1: Gross value added relative to the UK average (% , 2003)

	1995	2003
Scotland	101	96
Aberdeen City/Aberdeenshire/North East Moray	140	131
Angus/Dundee City	97	86
City of Edinburgh	152	160
Clackmannanshire/Fife	78	70
East Ayrshire/North Ayrshire mainland	80	68
East & West Dunbartonshire/eastern Argyll & Bute	65	62
East Lothian/Midlothian	70	64
Dumfries & Galloway	85	75
Falkirk	101	84
Glasgow City	123	138
Inverclyde/East Renfrewshire/Renfrewshire	100	88
North Lanarkshire	73	75
Perth & Kinross/Stirling	96	83
Scottish Borders	86	68
South Ayrshire	93	86
South Lanarkshire	80	80
West Lothian	119	91

Source: Scottish Economic Statistics 2006.

Labour market

The region's labour market has been performing well in recent years, with more individuals in employment than ever before. Employment rates are, and will remain partly dependent on broader global economic cycles and UK macro-economic factors. Both the employment rate and the economic activity rate (those in employment or seeking employment) for the region are at historically high levels. The employment rate for the period March-May 2006 stood at 75.3%, with the economic activity rate at 79.9%. The employment rate has increased by around four percentage points since 1999 with over 180,000 more people in employment than in 1999. Currently Scotland is fifth highest out of the 12 UK regions in terms of employment rates and also fifth in terms of economic activity rates. Moreover, Scotland has higher economic activity and employment rates than England, Wales, Northern Ireland and the UK as a whole. All employment growth over the last two decades has been in non-rural Scotland.

The region has seen a very significant structural change across industries in the last two decades. The transfer of jobs from the primary and manufacturing sectors to services has been highly significant, and will continue. Similarly, employment in professional and personal sector services has grown substantially and more than outweighs the fall in manufacturing and in skilled trades. These trends are expected to continue with the numbers of higher skilled and professional jobs rising and lower skilled jobs falling. Estimates suggested there will be half a million job openings expected between 2003 and 2008. Of these 36,000 will arise due to economic growth (an increase of 1.4%). The remaining 464,000 will arise to replace existing

workers who leave the workforce or change their industry or occupation (Futureskills Scotland, 2005a).

Skills and education

Higher skills levels are linked to higher employment rates. The share of more highly-skilled jobs within this region's economy will increase most quickly. Two decades ago managerial, professional and technical occupations accounted for only 26% of jobs in the region. By 2003, they accounted for 38%, and are projected to account for 40% by 2008. This is matched by the increasing proportion of economically-active Scots educated to Scottish Vocational Qualification (SVQ) level 4 or above: 26% in 1998, 32% in 2003, and a predicted 35% by 2008 if rising education participation rates continue. There is also a trend for increasing emphasis on generic and 'soft' skills. The most pressing need will be for more effective communication, problem solving, numeracy, planning, organisational, team working, and computing skills, together with an increased emphasis on attitude and self-presentation. (Futureskills Scotland, 2005b).

Diversity and equal opportunities

With an ageing and potentially declining population in the region, employers are hoping to use more technology to improve productivity as well looking to non-traditional groups to enter the workforce. To maintain flow into the labour market this diversity will have to continue apace to enable the region to be productive in world markets. Organisations will have to respond to changing demographics to enable more individuals with direct caring responsibilities for children and for elderly relatives to be accommodated in the workforce. On the supply side, there is evidence that more women, more older people and more people from abroad are entering and staying in the labour market. European integration and expansion of the EU has increased the supply of cheaper labour into the UK, and this is likely to continue. 32,135 Eastern Europeans registered in Scotland in 2004 under the Government's Worker Registration Scheme according to Home Office figures. More complex family relationships, more solo households, relatively smaller state pensions resulting in more older people staying in the labour force, will all have an effect on the nature of the work, the skills and training required, and the flexibilities and equality of opportunities which will have to be taken into account to ensure that people are not excluded from the workplace.

Key messages

- Long-term population decline represents a potentially significant labour market challenge to the region.
- Inward migration, particularly from overseas, could bring new skills and dynamism into the regional economy.
- Overall, the region's level of economic activity and growth remain relatively low, though there have been notable improvements in recent years.

- Similarly, the region's productivity performance is also comparatively limited, but with significant variations at sub-regional level.

2.2 Employment and Employability

Employment

With the labour market tightening in recent years, employment levels in the region are high. The region has an employment rate of 75% compared with 63% and 65% in the EU-25 and EU-15 respectively. The region has already met the EU Lisbon employment target of 70%. Since 2001, the region's employment rate has grown at nearly twice the rate of the EU-25. It also has a higher economic activity rate, at 76%, than the EU-25 and EU-15, both 75%. Between 2001 and 2004, the Scottish economic activity rate has seen a 1% increase. In contrast the EU-25 rate has fallen in the same time frame.

According to Eurostat, the region's unemployment rate (5.7%), is below the EU-25 level of 9.2%. While unemployment across the EU increased between 2001 and 2004, it decreased in Scotland. Scotland also out-performs the EU-25 in terms of unemployment amongst 15-24 year olds and long-term unemployment. Between 2001 and 2004, Lowlands & Uplands Scotland's 15-24 year old unemployment rate has fallen to 14.2% in contrast to the increase across the EU-25 to 18.5%. The rate for those unemployed for more than 12 months as a proportion of the unemployed total in the region fell to 21.9% compared to that for the EU-25 of 45.1%.

In terms of the older groups of working-age people, the LUPS region has higher employment rates for both 45-54 and 55-64 year olds than the EU-25. According to Eurostat, the difference is most marked for the 55-64 age group with a figure of 54% relative to the EU-wide figure of 42%. The Scottish percentage increase has also been above the EU level for both age groups.

Working-Age Population Activity

The number of working-age people in employment, education or training (EET) in Scotland as a whole was estimated in the Annual Population Survey to be 2.49 million in 2005 (Scottish Executive, 2006). That was 79.7% of the working-age people, an increase of 0.3 percentage points on 2004. However, this varies considerably between the different Local Authorities at NUTS 3 level. Glasgow and East Ayrshire had the lowest EET proportions in 2005, at 72.2% and 74.1% respectively. Whereas, at the upper end, four areas had EET proportions above 84.0% in 2005: East Dunbartonshire (86.1%); Aberdeenshire (84.4%); City of Edinburgh (84.6%); and East Renfrewshire (84.4%).

Although Scotland's employment rates are at historically high levels, again this masks big variations by locality. Within the region, employment rates vary significantly as Table 2 shows. Above-average rates have been recorded in rural areas such as Aberdeenshire, Dumfries & Galloway, Midlothian, Perth & Kinross and Scottish Borders as well as Aberdeen City, East Dunbartonshire and East

Renfrewshire, although the figures for rural areas do not take full account of levels of under-employment in these areas. The lowest rates of employment tend to be concentrated in urban areas such as Dundee City, East Ayrshire, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire and West Dunbartonshire, suggesting that the key cities of the region are not acting fully as economic drivers for labour market growth.

Table 2: Employment rates at Local Authority level

Local Authority	Employment rate (2006, %)
Aberdeen City	78
Aberdeenshire	80
Angus	77
Argyll & Bute (whole area)	77
City of Edinburgh	77
Clackmannanshire	73
Dumfries & Galloway	78
Dundee City	72
East Ayrshire	70
East Dunbartonshire	80
East Lothian	78
East Renfrewshire	79
Falkirk	76
Fife	77
Glasgow City	60
Inverclyde	71
Midlothian	79
Moray (whole area)	76
North Ayrshire (whole area)	72
North Lanarkshire	71
Perth & Kinross	78
Renfrewshire	74
Scottish Borders	78
South Ayrshire	74
South Lanarkshire	74
Stirling	76
West Dunbartonshire	71
West Lothian	76
Scotland average	75

Unemployment Rates

The variation in unemployment rates mirrors the pattern for employment rates. Using the Annual Population Survey, Scotland's 2004-05 official unemployment rate was 5.4%, with 132,700 people of working-age unemployed. The highest unemployment rates are in Scotland's larger cities with 8% in Glasgow, 7% in Dundee and 6% in Edinburgh.

On long-term (over 12 months) unemployment rates, South-Western Scotland has the highest rate in Lowlands & Uplands Scotland at 24% while North-Eastern

Scotland's rate is below 15%. Unemployment rates amongst 15 to 24 year olds varies from 13% in Eastern Scotland to 15% in South-Western Scotland.

Under-employment

Under-employment is a particular problem in rural areas. It can take a variety of forms, including taking on a job for which a lower qualification is required, or working for less time than one would like to. A measure of under-employment that captures the latter is the amount of people in work that would like to work more hours for the same pay. According the Annual Population Survey, when individuals were asked if they would want to work longer hours for the same pay, the Local Authorities with the highest share of respondents were those most characterised as 'rural' using the six-fold classification. This lends support to the idea that there is more under-employment in rural areas.

Labour Market in Deprived Areas

Within this regional labour market, there are worrying geographical variations, particularly between the 15% most deprived areas in the region and the rest of Scotland in terms of economic activity and qualification attainment, marginalising these individuals from the labour market. People living in the 15% most deprived areas were less likely to be in employment in 2005. 56.7% of working age people living in the 15% most deprived areas were estimated to be in employment compared to 77.9% for those living in the rest of Scotland.

People living in the 15% most deprived areas were also more likely to be unemployed in 2005. 13.3% of economically-active people living in these areas were estimated to be unemployed compared to 4.3% in the rest of Scotland. Relative to the average, unemployment rates have remained constant over time in relative terms.

This concentration of individuals marginalised from the labour market is very evident at both NUTS 3 area level. An analysis of the Scottish Index of Multiple Deprivation (SIMD) is useful in this regard. The SIMD is a combination of six stand-alone indicators: current income; employment; education, skills and training; health; housing; and access to local services. The employment, education and health indicators are more relevant in identifying disadvantaged urban areas.

Not surprisingly, given the nature of the measures, urban areas are more likely to display the worst concentrations of social exclusion and poverty as defined here. Other measures can capture problems which are more endemic to rural areas. For example, the access to services indicator measures drive times to key services and is a proxy for rural disadvantage, including variations in access to local services, such as General Practitioners, primary school and supermarkets, across Scotland. However, it remains the most robust measure of social exclusion, particularly in an urban context.

Table 3: Concentrations of Scotland's 15% most-deprived data zones by LUPS Local Authority area (2006)

Local Authority	% of total Scottish data-zones	% of total Local Authority data-zones
Aberdeen City	2.8	10.1
Aberdeenshire	0.6	2.0
Angus	0.8	5.6
Argyll & Bute (whole area)	1.0	8.2
City of Edinburgh	6.5	11.5
Clackmannanshire	1.5	23.4
Dumfries & Galloway	1.1	5.7
Dundee City	5.4	29.6
East Ayrshire	2.9	18.2
East Dunbartonshire	0.3	2.4
East Lothian	0.1	0.8
East Renfrewshire	0.3	2.5
Falkirk	1.9	9.6
Fife	4.8	10.4
Glasgow City	33.8	47.6
Inverclyde	4.3	38.2
Midlothian	0.5	4.5
Moray (whole area)	0.0	0.0
North Ayrshire (whole area)	3.4	18.4
North Lanarkshire	8.6	20.1
Perth & Kinross	0.9	5.1
Renfrewshire	3.7	16.8
Scottish Borders	0.3	2.3
South Ayrshire	1.3	13.6
South Lanarkshire	5.7	22.1
Stirling	0.7	7.3
West Dunbartonshire	3.4	28.0
West Lothian	1.4	13.3
Scotland	100.0	15.0

Source: Scottish Index of Multiple Deprivation.

Table 3 gives an overview of the concentrations of social exclusion in Scotland using the SIMD (ie. the combination of all six indicators) at NUTS 3 level for the region's Local Authority areas. Concentrations are the areas where the different processes measured by the indicators combine to create particularly persistent areas of economic and social poverty – so, for example, poor educational performance, bad housing, low levels of health and limited access to key services (such as childcare and transport) can result in high rates of worklessness and manifested in relatively

large numbers of claimants of state benefits. Because the factors tend to work together, areas that 'score' highly on several if not all indicators are likely to be those most resistant to initiatives to raise economic activity, whether in terms of the creation of wealth within the area itself or the ability of individuals/organisations within the communities to access neighbouring areas of opportunity.

The table concentrates on the worst concentrations of deprivation as measured at the 15% level, examining the incidence in terms of shares of data-zones relative to Scotland as a whole and relative to the Local Authority in question. From the table, deprivation has been concentrated in some parts of the region. Glasgow City shows a particularly high concentration – whether measured in national or local terms – and there are similar above-average concentrations in surrounding areas such as Inverclyde, North and East Ayrshire, North and South Lanarkshire, Renfrewshire and West Dunbartonshire. In the eastern part of the region, Clackmannanshire and Dundee City have relatively high concentrations as well as the City of Edinburgh, despite its relative overall prosperity.

Despite the continuing severity of the problem, there has been some positive change in recent years. To measure change over time, the Jobseeker Allowance claimant count rate for Scotland's 10% worst wards has been tracked against Scotland's rate. Between 2000 and 2004, the JobSeeker Allowance (JSA) claimant count in Scotland's 10% poorest wards fell from 15.1% to 12.2%. For Scotland as a whole, the rate decreased from 4.5% to 3.5%. The gap in unemployment rates has also fallen in this period from 10.6 to 8.7 percentage points. Measured in proportionate terms, however, the rate in the high unemployment wards has risen from 3.4 to 3.5 times the Scottish average.

From an area perspective, the Social Exclusion Unit's (2004) Jobs and Enterprise in Deprived Areas report found that many people living in these areas have:

- multiple barriers to employment;
- low aspirations for work and study;
- extremely low travel horizons (limiting the extent to which they can gain employment outside of these geographical areas);
- two or three generations out of work in the same family and neighbourhoods; and
- less contact with people in work and so do not benefit from informal routes into employment.

Concentrations of disadvantaged households take hold for different reasons in different places, but there are three main explanations put forward by the Social Exclusion Unit:

- Changes in the nature and location of jobs
 - A key local employer or industry closes down.
 - Lack of accessible jobs.
 - The informal economy can provide income opportunities which make formal work less attractive, especially when combined with benefits.
- Residential sorting
 - The housing market 'groups' the most disadvantaged people together.
 - Residents with sufficient financial resources can choose to move out of poorer neighbourhoods.
 - Housing policy can unintentionally exacerbate residential sorting.
 - Over half of all people moving into Scotland's 10% most deprived data zones were previously living in the 10% most deprived.
- Area effects. Residents' chances of finding work can be reduced simply because of where they live.
 - *Place effects* – these include location, poor infrastructure, lack of transport, competition for limited number of job or training opportunities, and variation in the quality and quantity of local services – these can combine to making such areas unattractive to businesses moving to these communities as well as stifling indigenous enterprise development.
 - *People effects* – these relate to the damaging effect of living with many other jobless people – for example, residents receive little information about jobs or encounter area-based discrimination by some employers.

In turn, these three explanations can lead to a:

- skills mismatch – an imbalance between the characteristics of potential workers and the attributes required by local employers; and
- spatial mismatch – a geographical mismatch between residences and potential workplaces.

The Social Exclusion Unit, in reviewing UK and international studies, argued that it matters if jobless people are concentrated in the same areas.

- Living in these areas can damage a person's life chances – especially those of children and young people.
 - Individuals living in deprived areas are significantly more likely to be out of work than similar people living elsewhere.
 - Children's educational attainment is closely linked to the level of neighbourhood poverty. For example, only 46% of pupils living in Scotland's 15% most deprived data zones attained expected standards in writing at the end of primary school. The Scottish average is 61%.
- Residents have lower expectations of finding a job and a lower probability of actually starting a business.

- A significant number of children are in danger of growing up in families and neighbourhoods with little contact with the world of work and a lack of positive role models.

In addressing these barriers and constraints, research undertaken by the CEEDR (ODPM, 2003) on the evidence for successful enterprise-led regeneration in deprived areas looked at the contributions of different types of enterprises. Economic growth for these areas is dependent on a combination of indigenous enterprise development, the attraction of outside businesses to the areas to act as significant local employers and the ability of residents to access good employment opportunities outside of the region. The latter activity is more appropriate to interventions through the ESF Programme for the region. However, with respect to the first two activities, the benefits can be summarised as follows.

- Enterprises provide employment opportunities to local residents. Their earnings can then be spent in the local economy which increases demand.
- Enterprises can boost the local economy by purchasing their requirements for materials, components and services locally.

Employability

Inactive and Unemployed Target Groups

Individuals make up the raw figures on unemployment, economic inactivity and employment deprivation. However, as with the geographic areas which contribute unevenly to these figures, certain client groups are more likely to be excluded from the labour force than others. Every individual within a client group will not necessarily experience the same barriers. For example, one lone parent may only face childcare availability as a barrier, whereas another lone parent may have poor qualifications, no work experience and no access to affordable childcare. The workless client group work-stream for the Employability Framework has also identified that a large proportion of workless individuals fall into multiple client groups. Low skills or qualifications, lack of self-confidence and work experience are personal barriers common to many of the workless client groups. The benefits system and stigma are also common to many of the client groups

The problems arising from worklessness are particularly acute among young people who are workless. The number of 16-19 year olds "not in employment, education or training" (or 'NEET') was approximately 36,000 in 2005 which equates to 14% of the total 16-19 year old population. The NEET group is of particular concern as they represent a part of the population where worklessness can become entrenched through an absence of any history of employment. The proportion of NEET in the region has not significantly changed in any year since 1996 with the proportion fluctuating between 13% and 15%. Males generally have a higher proportion of NEET than females.

In terms of scale, the most substantial workless group is the 346,000 sick and disabled benefit claimants, which equates to 67% of all claimants and 11% of the

total region's working population. The client group effectively consists of two groups – sickness and disability are distinct – but from a policy perspective, it can be useful to consider them together. Between 2000 and 2005, the client group increased by 2%. However, that still leaves 189,000 claimants in the area, 55% of Scotland's total. Breaking this down further by NUTS 3 area, the highest rates have been found in Glasgow (18%), and in both North and South Lanarkshire at over 12%.

In 2001 it was estimated that in Scotland only 30-40% of disabled people are in work, compared to 51% in the UK as a whole. This figure reduces to only 28% of people with a mental health condition and 24% of people with a learning disability (DRC, 2005). Statistical evidence is not readily available on benefit claimants with mental ill health. However, data from the research work-streams for the development of the Employability Framework suggests that approximately 119,100 people claimed Incapacity Benefit in Scotland due to mental and behavioural disorders in May 2004. It has been estimated that only 8,250 opportunities on training and employment programmes exist for the working-age people in Scotland with mental health issues.

It is very difficult to find reasonably accurate figures for individuals with chaotic life styles, homeless, abusing drugs or alcohol, or ex-offenders. These individuals tend to be concentrated in the most deprived areas, with 60% of Scotland's declared homeless are in Glasgow. Some idea of the scale of the problem can be extrapolated from specific figures. For example, by applying the overall prevalence rate of drug misuse to the Scottish population, it can be estimated that there are approximately 58,000 working-age people with drug problems, and data suggests that nearly 73% are either long term unemployed or have never worked. Scotland had a prison population of 6,569 in 2003, the equivalent of 129 per 100,000 of the total population, and again high proportions of these individuals find it particularly difficult to enter work on release from prison.

Gender

The working-age employment rate in Scotland was higher for males than females in 2005. The rate for males was estimated at 77.6% compared to an estimate of 72.1% for females. The total number of working-age males in employment, in 2005, was estimated at 1.235 million with a further 24,000 over working age in employment. The total number of working-age females in employment was estimated at 1.104 million with a significantly larger number of 52,000 over working age in employment. The NUTS 3 area which had the highest male employment rate estimates in 2005 was Aberdeenshire (84.6%).

Lone parents also make up a significant group. There were 66,400 lone parents claiming state benefits in 2005, which is a 17% decrease from 2000. However, this still represents 2.1% of the working-age population, and lone parents are concentrated in areas of deprivation. Lone parents living in deprived areas are much more likely to be unemployed or inactive and face important barriers to their participation in the labour market, particularly with respect to their caring responsibilities. At NUTS 3 level, every area has a rate below 3% except East and

North Ayrshire, with 4%. East Lothian and Midlothian have the lowest rate at just under 1%.

The balance between employment and home-life caring responsibilities continues to be a significant problem for many women. Although around 110,000 economically-inactive women in Scotland would like a job, approximately 36% of these were prevented from returning to work because they had to look after their family. Issues around caring responsibilities for elderly and ill relatives are now becoming a common problem for more and more people in the 45-to-64 year age group.

Ethnic Minorities and Asylum Seekers/Refugees

Ethnic group and asylum seekers/refugees have distinctive issues relating to their participation in the labour market, arising from lack of qualifications (or recognition of the qualifications they have) and in some cases, lack of key skills such as English language. The region's ethnic minority employment rate was 56.4% in 2004 – this had shown only an increase of 1% since 1999. Indeed the gap between the total employment rate and the ethnic minorities relies on a small sample size, it indicates that the group's employment rate had widened marginally in that period. In addition, in the most recent data from the Annual Population Survey, the employment rate amongst non-white females in Scotland is 48% – well below the rates for non-white males (59%) and white females (72%). The economic inactivity rate is higher for each ethnic minority group than the 'White' rate of 20%. The 'other' and 'Pakistani/Bangladeshi' groups have the highest rates with both over 38%. Of the 29,700 ethnic minority population who are economically inactive, 18,700 live in Glasgow or Edinburgh.

The largest number of asylum seekers are resident in Glasgow with a report for the COSLA Refugee and Asylum Seekers Consortium stating that there were 5,798 asylum seekers living in the city in 2005. A recent skills and aspirations audit by the Scottish Executive (2004) found that only 5.7% of the refugees and asylum seekers in Scotland who responded to the audit indicated that they were in employment. Many referred to their lack of language skills, and a lack of language courses for them. Others noted employer discrimination and lack of cultural awareness among support staff as barriers to their participation in the labour market.

Key messages

- The region has shown an overall good employment performance in recent years. Employment rate of 72% exceeds EU Lisbon target of 70% and is at a historical high, driven by an expanding employment base and linked to low unemployment rates. Indeed, employment rates have risen for the major groups of the population, including the more disadvantaged groups such as lone parents.

- There is still a substantial gap between the employment rates for the more disadvantaged groups and the workforce as a whole. Worklessness is a more acute problem than unemployment in many cases. The NEET Group constitutes a particularly difficult problem, as well as those working-age jobless people described by their benefit status as 'sick and disabled'.
- Relative to the average, unemployment rates for people living in the most deprived areas have remained constant over time in relative terms. Areas with concentrations of worklessness often present a greater policy challenge because there are a number of environmental factors reinforcing the lack of employability characterising some communities.
- Ethnic minority employment rate at 56.4% increased only marginally (1%) and the gap has actually widened. Employment rate for non-white females in Scotland is 48% – well below the rates for non-white men (59%) or white females (72%).

2.3 Workforce Skills

To improve the region's relatively poor productivity performance, one important component is the skills profile of the workforce. In examining the skills of the workforce, there are several broad areas that need examination: the composition of the workforce; their skills level; and the ability of the workforce to improve those skills. Headline features of these different issues are presented here against EU averages.

Examining the composition of the workforce in Scotland as a whole, there are 608,000 part-time employees, an increase in absolute and in percentage terms since 2001. The proportion of part-time employees in Scotland (25%) is much higher than the EU-25 average of 18%. Part-time employment is not in itself an issue that needs to be addressed by Structural Funds intervention, but can be concerning in the context of low income and skills levels associated with some part-time jobs, especially under-employment in rural areas.

If the region is to make a full contribution to the Lisbon Growth and Jobs Agenda, the number and skills level of potential and actual entrepreneurs in the economy is another important consideration. If the region is to have a enterprise base that is regularly replenished and generates innovative ideas for high-growth economic activity, the stock of entrepreneurs needs to be monitored. The evidence suggests that Scotland has a clear challenge with creating and sustaining entrepreneurs. There are around 240,000 self-employed people in all of Scotland, 10% of all employment – a rate well below the EU-15 and EU-25 averages of 15%. There are significant variations here: the highest proportion of self-employed is in North-Eastern Scotland, while the lowest is in South-Western Scotland. One measure of entrepreneurship is given by the Total Entrepreneurial Activity (TEA), which is the percentage of adults either actively starting an enterprise or running a new enterprise (less than 3.5 years old). In 2004, the Scottish TEA figure was 5.1%, up from 4% in 2000, but still in the bottom half of a 'league table' of those EU countries participating in the survey. The number of business start-ups per 10,000 population, one of the

main indicators of entrepreneurship in an economy, was 28 in Scotland in 2005, which was significantly lower than the UK average of 38 (Small Business Service, 2006).

With the accelerating developments in internet technology and e-commerce applications of that technology, it is essential that enterprises are able to make full use of the nearly universal broadband coverage in the region (to which investment infrastructure by past Structural Funds programmes have made significant contributions). Enterprises are making increasing use of broadband in Scotland – the share of business activity transacted through e-business rose from 17% in 2001 to 20% in 2004, higher than the UK average (DTI, 2004). However, Scotland continues to lag behind key competitor countries in other parts of the EU and North America, with continuing challenges in enterprises recognising the potential of e-commerce and having the skills to make full use of the technology. This challenge is particularly relevant for new enterprises, especially in non-ICT sectors, where enterprise growth and survival could be improved through a better use of e-skills and opportunities.

Similarly, in looking at the overall skills level of the workforce, the region shows a mixed picture. Reliable international comparisons on low/no skills are difficult because of the problems of comparing different education and qualification systems, and it is not possible to calculate EU averages because data are not available for all countries. However, for those countries where comparison is possible, Scotland as a whole appears to perform well. On the proportion of the 15-plus population whose highest qualification is ISCED level 2 or below (equivalent to lower secondary education), the Scottish figure is amongst the lowest, at just 10.7%, above only the UK, Lithuania, Estonia, the Czech Republic and Slovakia. However, as the sections below show, there are still significant issues for the region in the numbers of those with low or limited skills entering into sustainable employment.

Finally, as a measure of the region's capacity to improve the skills level of its workforce, Scottish participation in training is well above the average involvement in the EU-25 with 15.3% of adults aged 25 to 64 years undertaking education or training in the previous four weeks. However, according to Eurostat, the average for the Scandinavian EU economies was 25.7% in 2004, and the Scottish percentage has dropped 2% over the last four years.

Overall skills performance

One measure of the need to improve the skills of the workforce is the concept of 'skills gaps'. Skills gaps exist within organisations when a current employee is judged to be not fully proficient at his or her job. Results from Futureskills Scotland (2005b) skills survey reveal employer perceptions of three areas in which inadequately skilled staff are deficient. Planning and organisation, customer handling, problem solving and team working are all identified as weaknesses in over 50% of staff that are less than fully proficient; then written communication is deficient in almost 35%; and finally, numeracy and literacy, although among the least common skills deficiencies, are both still identified as a problem amongst almost one in five employees with skills gaps.

Evidence from Futureskills Scotland's employer survey also shows employer perceptions of the skills gap varies by broad industrial groups. They see skills gaps as most common in the hotel and restaurant sector, with 14% of employees judged to be less than fully proficient. This is significant as these industries are characterised by short-term and part-time employment. Other services, public administration and transport all report skills gaps over 10%. However, the largest number of employees with skills deficiencies – nearly 25,000 – are in the manufacturing sector where the survey suggests that employers perceive 10% of employees as not fully proficient. In terms of employers addressing these issues, people employed in the public sector are more likely to receive in-work training than those in the private sector. The agriculture & fishing, distribution, hotels & restaurants and transport & communications sectors have considerably lower levels of training.

Another important measure of skills is basic skills such as literacy and numeracy. On the available evidence, while few adults have a complete lack of reading and writing ability, many more may have very low literacy or numeracy skills. The International Adult Literacy Survey (IALS) estimated that 800,000 – or 23% – Scottish adults have low literacy or numeracy skills, while another 30% may have inadequate skills to meet employers demands. The Scottish IALS identified the characteristics likely to be associated with an individual having low skills in this area as those who left education at 16 or earlier, are on a low income, in a manual social class group, living in a disadvantaged area, and/or over 55.

Lastly, it is useful to consider low skills more widely. In the absence of reliable data on skills levels, the highest level of qualification held is often used as a proxy. The report of the Employability Framework, Workforce Plus low paid/low skilled research work-stream considered the low skilled group as people with qualifications below SVQ Level 2. In 2004, there were almost 580,000 working-age people, or 18.5% of the working population, whose highest qualification was below SVQ level 2. At NUTS 2 level, the highest number and concentration of this group was in South-Western Scotland, with over 300,000 people, or 22% of the working-age population, with another particularly high proportion (27.5%) in North Lanarkshire.

Groups with specific skills issues

Within the workforce, different groups face different skills issues and challenges in securing sustainable employment. The groups facing the most distinctive disadvantages are the following:

- low paid workers and workers with low skills levels;
- those facing acute gender issues;
- ethnic minorities and asylum seekers/refugees; and
- older workers.

Low Pay/Low Skill

Low pay is defined by the OECD as earnings below two-thirds of the median level. Data from the Annual Survey of Hours and Earnings shows that around 486,000 people, or 22% of all employees in Scotland, earn below the low-pay threshold. It also shows that the highest concentrations of low paid jobs are in distribution, hotels and restaurants and agriculture and fishing, and that the majority of low paid employees are in either sales and customer service, or elementary occupations.

The Institute for Employment Studies (2003) found that there was no UK research into the opportunities for progression amongst low-paid, low-status employees. However, because of the limited training on offer, people in these jobs are unlikely to gain any formal qualifications. As a result, there are two possible paths for career progression, either promotion opportunities that do not require additional formal applications and are not likely to be taken by better qualified external applicants, or similar but slightly better jobs with other employers. It is considered that there are likely to be few opportunities in the first category, although as a result of the current buoyant labour market and the premium placed on work experience and references by employers, there will be more 'horizontal' movement.

Low pay is often associated with part-time working, and evidence from the Employability Framework's low-paid/low-skilled research work-stream indicated that both female and male part-time workers receive 40% less training than their full-time counterparts.

Gender

Data from the Annual Population Survey show that around 110,000 economically-inactive women in Scotland would like a job. Approximately 36% of these were prevented from returning to work because they had to look after their family. It is estimated that women returners to the labour market make up around a quarter of the female labour force at the UK level. Around 35% of mothers are employed part-time, compared to 21% full-time. Women returning to work part-time are concentrated in low-status jobs, particularly in administration, sales and customer services, and caring and personal services. Hourly rates of pay for women are only 84% of the male figure, and for full time jobs female weekly pay is only 82% of the male average.

Women returners tend not to have the opportunity to make full use of their past training and experience when returning to work in less-skilled jobs, often because of the absence of a recent work record. Full-time returners average a loss of wages (per hour) of 12%, correcting for their characteristics, while the penalty for part-time returners was 22%. There is evidence to suggest that women tend to return to lower-skilled part-time work because of the inflexibility of full-time employment. This is not helped by persistent gender differentials in Scotland's labour market. Gender segregation in sectors persists with only 11% of workers in the construction industry who are female and only 27% in manufacturing, transport and communications.

Approximately 277,000 Scottish women aged between 16 and 64 are 'would-be' entrepreneurs. Of these 34,000 have a current active interest in setting up an enterprise. In general, however, Scottish women have lower growth ambitions for their enterprise than their male counterparts. There are 67,100 self-employed women which is 27% of total self-employment. Taken as a whole, women set up around 30% of Scotland's enterprises. These firms continue to be concentrated in 'traditional' women's sectors.

Gender imbalance does not simply apply to women entering male-dominated sectors. To address the perception that there are gender-specific occupations, it is important that men are encouraged to enter into jobs and sectors traditionally associated with women, such as the caring profession.

Ethnic Minorities/Asylum Seekers/Refugees

The 2001 Census provides data on people from ethnic minorities with low qualifications. 32,000 people from ethnic minorities lack qualifications at SVQ Level 2 or above. The greatest number of non-white people with low qualifications are concentrated in Glasgow and Edinburgh. The proportion of non-white people with low qualifications is higher in Glasgow, Falkirk and Ayrshire.

The availability of earnings and employment data on ethnic minorities in Scotland is hampered by small sample sizes. At a UK level, both men and women in certain ethnic minorities, particularly Pakistanis, tend to earn less and are more likely to have no qualifications than their white counterparts. Amongst ethnic minorities, the rate of female self-employment is much lower than that of men (12% compared to 24%). However, it is worth noting that this is still much higher than the rate of female self-employment for Scotland as a whole.

Older Workers

Data from the Labour Force Survey show that people aged over 50 are much more likely to have low skills than other age groups. The number of economically-active people in this age group with no qualifications is 106,500, around 20% of the age group. There are variations across Scotland in the percentage of this age group with no qualifications – ranging from 17% in Eastern Scotland and North-Eastern Scotland to 23% in the South-Western Scotland.

As noted earlier, using qualifications as a proxy for skills means that that some people will be classified as being 'low skilled' because they lack accredited qualifications, even though they may have high levels of unaccredited skills. This is likely to be especially true for people aged over 50.

Skills in SMEs

The number of small enterprises employing less than 200 in Scotland overall is 166,600 with particular concentrations in Glasgow and Edinburgh. SMEs face a range of quite specific barriers to increasing skills in their workforce or managers

such as the cost of losing staff time off the job while they undertake training. The cost of course fees and the need to pay for staff cover are major issues for around one in five employers. There is often limited money set aside for training within the organisation, a lack of perceived relevance of external training, and a fear that staff might be 'poached' when they gain qualifications. The smaller the workplace size, the less likely it is that training will be provided.

The most widely perceived constraint to setting up an enterprise is finance. Beyond finance, no single constraint affects the majority of 'would-be' entrepreneurs and most face more than one constraint. However a major constraint for them all is a shortage of skills – specific skill shortages vary between individuals, but cover a wide range of issues such as accounting, marketing, e-skills, and purchasing expertise. Self-employed males are less likely to have undertaken adult learning than male employees. The opposite is true for women.

Social Enterprise Skills

The skills of the social economy is another important issue to consider, not least as social enterprises and voluntary sector organisations are often the bodies addressing the employability issues identified in the Labour Market Analysis above. Studies conducted by McGregor et al. (2003), Glass et al. (2002) and Futureskills Scotland (2005b) highlight some of the main support needs of social economy organisations. Around a third of organisations see the need to develop the skills of the workforce, employed or volunteering. Strengthening the skills of managers was the main support needed for over one in five of the largest organisations. Smaller organisations are much more concerned to tackle long standing issues of board or management committee capacity, but this is reported as main support need by only 10% of large organisations. There are increasing needs for financial skills and marketing and enterprise training to help staff become more entrepreneurial.

Key messages

- It is estimated that 23% of Scottish adults have low literacy or numeracy skills, while another 30% may have inadequate skills to meet employers' demands.
- There are almost 580,000 working-age people considered to be low skilled.
- 22% of all employees earn below the low pay threshold, with the majority of these employees in either sales and customer service, or elementary occupations.
- Around 110,000 economically-inactive women would like to work, with 36% of these women prevented from returning to work because they had to care for their family.
- Only 10% of all those employed in Scotland are self-employed, compared to a EU-25 average of 15%. Entrepreneurial activity is increasing in Scotland, but is still lower than many other EU countries.
- Social economy organisations report that their key needs are developing the skills of their employees and volunteers, and the capacities of their managers.

2.4 Lifelong Learning

Although Scottish adult participation has fallen marginally between 2000 and 2004 to 15.3% undertaking education and training in the previous four weeks, and 20% in the previous 13 weeks, this rate remains significantly higher than the EU average. In the EU-25, only 8.6% of adults had participated in education or training in the previous four weeks, and only 9% for the EU-15 in the previous 13 weeks, although the EU figures are increasing.

In 2003, the region's percentage of population in further education (FE) had increased to 11.1%, more than double that of the EU-15 and EU-25 at 5.2%. Participation in higher education (HE) was 5% of the total population in the region by 2003, again significantly higher than the rate of 3.7% in both the EU-25 and EU-15. According to Eurostat, at 20%, Scottish participation in workforce training was more than double the 9% figure in the EU-15 in 2002. Scotland, although starting from a higher base, has seen a similar slight increase in these participation rates over time to that in the EU.

Geographical variations

Within Scotland, DTZ Pinda's (2005) Supply and Demand of Further Education in Scotland report found substantial variations in participation rates at FE colleges in different areas across Scotland. Scotland's average participation rate was 153 per 1,000 of the working-age population. However, the rate was significantly higher in Glasgow, Fife and Clackmannanshire, Dundee City and Angus, and significantly lower in Edinburgh, the Lothians and Lanarkshire.

The Scottish Index of Multiple Deprivation Education Indicator shows concentrations of education deprivation in Scotland using both the proportion of the working-age population with no qualifications and school-age performance. Within Lowlands & Uplands Scotland, South-Western Scotland has the highest concentration with 22% of its data zones in Scotland's 15% worst areas of education deprivation. Eastern Scotland has 12% of its data zones in Scotland's 15% worst, while North-Eastern Scotland performs well with only 6% of its data zones. The NUTS 3 breakdown shows that urban areas perform significantly worse on this measure than rural areas. Glasgow has the most severe problems with 30.5% in the worst 5%, 43.1% in the worst 10% and 48.8% in the worst 15% areas. Three NUTS 3 areas in Eastern Scotland have over 15% of their data zones in Scotland's 15% most-deprived areas – Edinburgh, Falkirk, and Angus and Dundee City.

The SFEFC/SHEFC (2005) Learning for All report found participation at higher education level by people from the most deprived areas has grown but very gradually. People from the least deprived areas were still about twice as likely to be participating in higher education as people from the most deprived areas.

Low participation neighbourhoods for entrants to First Degree Courses in HE institutions are defined as areas where the participation rate among 18-19 year olds

is less than two-thirds the UK average rate. Scottish HE institutions have increased the proportion of their young entrants who are from low participation neighbourhoods to 19%. This is significantly above the UK average. However, there has been a drop in the proportion of mature entrants, those aged 25 years or over, from these neighbourhoods. (Scottish Executive, 2005c).

Participation in different forms of lifelong learning

Post-Compulsory School-Age Lifelong Learning

The Labour Force Survey estimated that in the academic year 2003-04 there were 2.3 million people of working age (74%) in Scotland involved in some form of learning activities. This included 700,000 undertaking courses in educational institutions; 34,000 taking courses outside of Scotland; 750,000 receiving work based training; and a further 750,000 engaged in more informal learning activities.

On reaching school-leaving age, many young people continue in education and training at school, college or with an employer. Staying-on rates, that is the number of pupils who continue into post-compulsory education, divided by the total number of pupils in the entire cohort, is an important lifelong learning indicator. In 2004-05, about 76% of those entering S3 in 2002 stayed on until S5. The figure drops to 67% after Christmas, when education becomes voluntary for all S4 pupils. Only 44% of those entering S3 in 2002 stayed on until S6. Females have higher staying on rates than males. The staying-on rates have remained fairly steady over the last five years.

Half of school leavers went on into Further or Higher Education in 2003/04, which represents a 2% fall since 2002-03 for those going into HE and no change for those going into FE. In 2003/04 there were a total of 467,170 enrolments in Scotland's 46 FE Colleges. Of these, 84% were part-time; 352,290 were vocational enrolments; 59,270 were for non-vocational classes; and 55,160 were in higher education courses.

In terms of the demographic breakdown of vocational enrolments, 57% are female, 43% male; 40% of vocational enrolments are aged 24 years old or under; 43% are aged between 25 and 49 years old; and 18% are aged 50 or over.

In 2003/04, there were 172,875 first degree or postgraduate students who were domiciled in Scotland and studying in UK HE institutions. That equates to 6% of Scotland's working-age population. 126,605 were enrolled on first degree courses. 46,270 enrolled on postgraduate courses. 71% of the total 172,875 students attended Scottish HE institutions.

The Age Participation Index measures the proportion of Scots under 21 years old who entered higher education anywhere in the UK for the first time in a given year. In 2003/04, 48.9% of young Scots entered a full-time higher education course for the first time. This has fallen slightly since its peak of 51.5% between 2000 and 2002. However, over a longer time period, the figure has doubled since 1990. 30% of

young Scots enter at degree level, with 19% entering at sub-degree level, 78% of whom were aged under 24 years old. In contrast, 71% of postgraduate entrants were mature students aged over 25 years of age.

Students with disabilities participate broadly in proportion to their numbers in the total population. 5.3% of students at Scottish HE institutions declared a disability in 2003/04. In 2000/01, this figure was 3.8%, though this increase can partly be put down to refinements in data collation.

Taken from HESA (2001) Statistics Focus, 6% of Scottish-domiciled first-year higher education entrants in 2000/01 were non-white, which compares favourably with the proportion of non-white individuals living in Scotland, which is 2%.

Other Post-School Lifelong Learning

14,855 people aged 16 to 24 years of age entered Modern Apprenticeships in 2004/05. The majority of participants are male, reflecting the fact that more females stay on at school or enter further FE. 7,333 achieved an MA.

Of the 8,469 people aged 16 to 18 years of age participating in the Skillseekers programme in 2004/05, 5,556 achieved a vocational qualification. The numbers of male and female participants in the Skillseekers programme are about even.

During the period April 1998 to December 2004, 13.5% of the 144,350 18 to 24 year olds in Scotland starting on to New Deal for Young People (NDYP) chose to move onto a course of full-time education or training. About 74% of the participants in the NDYP programme are male (Lifelong Learning Statistics, 2005).

8,543 young people joined the Get Ready for Work (GRfW) programme in 2004/05. Of these, 3,011 participants achieved Positive Outcomes. GRfW is dominated by males with only around 35% of participants achieving positive outcomes being female.

The Scottish Executive's (2005) Lifelong Learning Statistics define adult learning as all types of learning excluding that undertaken by full-time students of school, university or college. Adult learning includes all individual learning, in-work training and training programmes that improve the chances of employment or progression.

Using these statistics and Annual Scottish Labour Force Survey (ASLFS) data shows that for women aged 16-54, the proportion undertaking training in the last three months is around 34-35%. Whereas for men, the proportion undertaking training varies between 37% for 16-24 year olds and 25% for 45-54 year olds. There is a definite downward correlation between age and the proportion of people undertaking training, with older people less likely to undertake training. Older people are less likely than younger people to have undertaken some sort of adult learning in the past year.

Economically-inactive people who are sick, disabled or are looking after the home are the least likely to have undertaken any adult learning.

Qualification level is positively correlated with the likelihood of undertaking adult learning. Over 90% of people with qualifications above SVQ Level 4 have undertaken adult learning compared to 69% and 38% of people with SVQ Level 2 qualifications and no qualifications, respectively.

The numbers participating in the Training For Work programme have been falling over time, experiencing a significant fall since 1998 when the New Deal for 25+ was introduced. Of the 9,589 participating, 46% of all leavers achieved a positive outcome in 2004/05, with 44% of male leavers and 50% of female leavers achieving a positive outcome.

The people aged 25 or over joining the Adult Modern Apprenticeship programme are predominantly female, in contrast with the 16-24 Apprenticeship age group. Over 60% of MAs achieved are by females for this age group. This compares to only around 40% of female participants aged 16-24.

In-Work Training

In-work training can be both on-the-job and off-the-job training. On-the-job training includes supervised training at the workplace; while off-the-job training includes training away from the workplace at the employer's premises or at an educational establishment or other training provider (Lifelong Learning Statistics, 2005). Using data from the Annual Scottish Labour Force Survey (2004) it is estimated that in the last three months, 687,000 (31%) of working-age people in employment have undertaken job-related training. A greater proportion of female than male employees have undertaken job-related training in the last week, month and three-month period.

Further evidence on work related training is obtained from surveys of employers, including the Scottish Employer Skills Survey which shows that 64% of establishments in Scotland provided some training in the previous year, in the survey for 2003 and again for 2004. The proportion of establishments giving some off the job training has decreased slightly, but remains at over 50% while the proportion offering no training of any sort remained at 36%. The 2004 Annual Scottish Labour Force Survey shows that in the previous three months, 687,000 (31%) of working-age people in employment had undertaken job-related training.

The incidence of training increases significantly with workplace size. 96% of establishments with 250 or more employees provided training in the previous 12 months. Less than half the establishments with less than five employees provided training.

Key messages

- Scotland's participation in education and training at 15.3% is well above the EU-25 average.
- Over one-quarter of the working-age population is not involved in some form of learning activities.
- People from the most-deprived areas are about two times less likely to participate in higher education as people from the least-deprived areas.
- Economically-inactive people who are sick, disabled or have caring responsibilities are the least likely to access adult learning.

2.5 Summary of Key Challenges

In this final section of the socio-economic analysis, on the basis of the statistical evidence presented above, a summary of the key issues to be addressed in the Programme is presented: first, an analysis of the main strengths, weaknesses, opportunities and threats for the region's labour market; and second, a more detailed identification of the key challenges for the Programme under the employability, workforce skills and lifelong learning headings.

SWOT analysis

Regional Strengths

- The region has shown an overall good employment performance in recent years. Employment rate of 72% exceeds EU Lisbon target of 70% and is at a historical high, driven by an expanding employment base and linked to low unemployment rates.
- Employment rates have risen for the major groups of the population, including the more disadvantaged groups such as lone parents.
- The proportion of economically-active Scots educated to SVQ level 4 or above is rising as is participation rates in education.
- Scotland's participation in education and training at 15.3% is well above the EU-25 average. Overall, there is a high percentage of young people in higher education.

Regional Weaknesses

- There is still a substantial gap between the employment rates for the more disadvantaged groups and the workforce as a whole. Worklessness is a more acute problem than unemployment in many cases.
- There are big geographical variations in employment rates with, for example, Glasgow's employment rate is only around 65% compared to 76% in Edinburgh and 78% in Aberdeen.

- The NEET Group constitutes a particularly difficult problem. There are around 33,400 16-19s in this group, the majority in South-Western Scotland with high concentrations in the Glasgow area. The group represents a particular policy challenge given the entrenched nature of worklessness among the individuals.
- The numbers of working-age jobless people described by their benefit status as 'sick and disabled' have fallen by only 2% – and at 346,000 people now make up 67% of all working-age jobless people. Around 119,000 people claiming Incapacity Benefit have mental ill health and behavioural problems.
- Relative to the average, unemployment rates for people living in the most deprived areas have remained constant over time in relative terms. Areas with concentrations of worklessness often present a greater policy challenge because there are a number of environmental factors reinforcing the lack of employability characterising some communities.
- Ethnic minority employment rate at 56.4% increased only marginally (1%) and the gap has actually widened. Employment rate for non-white females in Scotland is 48% – well below the rates for non-white men (59%) or white females (72%).

Regional Opportunities

- The region benefits from macroeconomic stability providing a foundation for further employment growth.
- There is a regulatory framework that sets clear standards, such as the national minimum wage, anti-discrimination and equal opportunities legislation.
- The Scottish Executive is committed to new strategies on employment, regeneration and tackling the NEET group.
- A significant part of the working-age population in the region is willing to work if they can overcome barriers such as affordable available care for relative, health issues, or discrimination.
- Although the measure of entrepreneurship in Scotland is in the bottom half of the EU, in 2004 it was up from 4% to 5.1%, showing signs of improvement.
- Although there are demographic concerns to the long-term labour market, the influx of migrants into the region provides new opportunities for employment and productivity growth.
- Because a number of areas within the region have a combination of economic problems acting to reinforce problems of poverty and social inclusion, spatial and co-ordinated targeting of additional resources could provide an effective means of intervention.

Regional Threats

- Macroeconomic instability or a change in interest rates might affect the economic climate and the employment levels.
- Increased migration from new accession EU members might make employers less prepared to work with the local workless population trying to enter or progress in the labour market. The challenge will be to turn migration into an opportunity for the Scottish economy to gain from new skills sets and a potentially larger pool of entrepreneurs.
- The population is ageing and older workers tend to have less recognised qualifications and are less prepared to undertake training. There is a need to retain older workers in the workforce, but also to increase their productivity. At present there is a market failure as employers will not provide this training as the private costs to either the employer or the individual are likely to exceed the benefits to them personally.
- Social attitudes still need to be tackled to overcome gender segregation, recruitment and progression for some groups within the working population.

Key Programme challenges

The SWOT analysis – and the key messages highlighted above – suggest that there are a number of key strategic challenges which the Programme should address.

1. **Reducing the acute levels of worklessness in certain groups and areas.** Significant efforts are still required to reduce the 520,000 working-age people who are on state benefits. Although pathways to work should not be the preferred solutions in all cases, securing sustainable employment can be critical in helping individuals out of poverty. Efforts are needed to provide individuals with the opportunity and skills for entering/re-entering the labour market. At the same time, there are parts of the region where worklessness is at acute levels, resulting in self-reinforcing poverty cycles that can hinder the employment prospects of individuals located in particular communities.
2. **Improving employment rates in those groups which are the 'hardest-to-help'.** Linked to the above issue, there is a case for support to concentrate on those individuals and groups which face multiple and severe barriers to their participation in the workforce. Domestic support is more available for those 'close' to the labour market. As the 'hardest-to-help' require more intensive forms of assistance, resources should be targeted to allow them to access the full set of services they require to enter the labour market. While sustainable employment may not be the right solution for all individuals in these groups, there is scope for helping those who want to enter the labour market. This may mean focusing on improving 'soft', basic skills in entering the labour market and aim to further their progress towards achieving sustainable employment, rather than focus exclusively on supporting individuals to get jobs immediately. At the same time, employer attitudes need to be addressed to ensure that employment opportunities will be extended to this group.

3. **Increasing the ability of the low-waged and low-skilled to progress through the labour market.** Only a small proportion of low-waged/low-skilled employees appear to progress in the labour market. For some groups though, the issue is not simply one of supply but demand as well, particularly with respect to employer attitudes to certain groups (such as ethnic minorities, migrants and older workers).
4. **Tackling representation in key occupations and sectors of under-represented groups.** Persistent gender earnings gaps and strong gendering in specific occupations and industries need to be addressed more effectively, both to widen opportunities for women and increase the labour supply to occupations and industries dominated by particular genders. Similar issues apply to ethnic minorities. At the same time, there is a need to encourage greater retention and retraining of groups such as older workers and migrants to ensure a thriving, growing supply of labour. As a market failure in the region, the issue relates to both labour supply needs (such as training) as well as demand (such as employer attitudes).
5. **Increasing the skills levels of entrepreneurs and new enterprise managers.** Entrepreneurialism is less common in the region's labour market relative to the rest of the UK and the EU. General skills/training support is needed to help raise the new firm formation rate, but there is also a strong case for specific measures to help move under-represented groups into self-employment, including the currently employed. At the same time, new enterprise managers often lack sufficient management, e-business and knowledge economy skills.
6. **Providing social enterprise managers and workers with greater skills to sustain their organisations.** The capacity of the social economy to deliver services more effectively to vulnerable groups and develop the skills to achieve long-term enterprise survival is important.
7. **Increasing lifelong learning participation rates among the most disadvantaged groups.** In terms of headline figures, the region compares favourably for overall participation rates in lifelong learning, but they vary considerably by group. This underlines the need to focus on the most disadvantaged. It also confirms that working intensively to address these disparities is essential to make in-roads into closing the opportunity gap that currently exists.

3 POLICY BACKGROUND

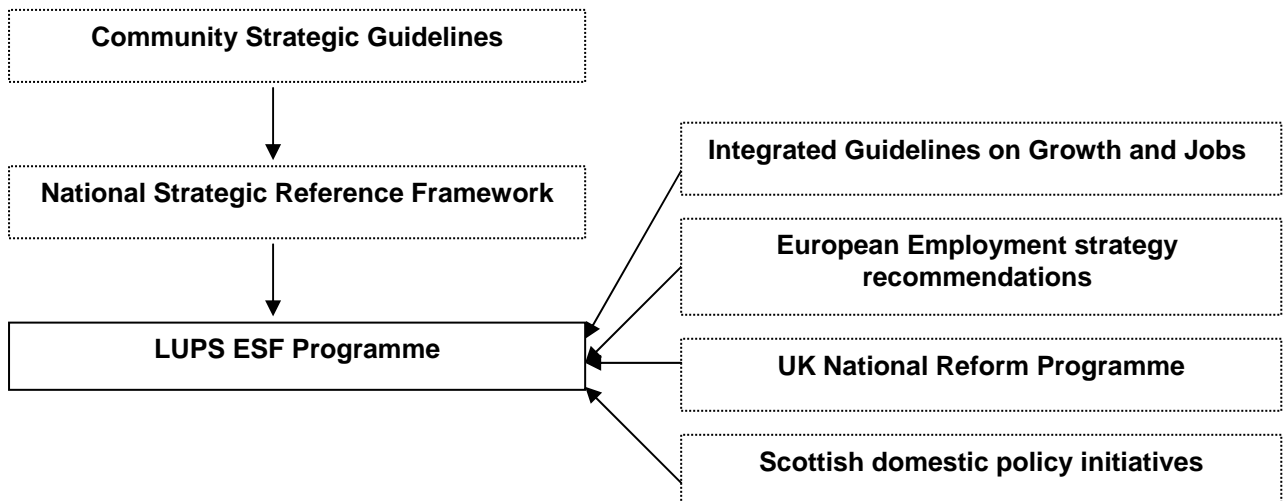
3.1 Policy Context

The ESF Programme must address the challenges set out in the analysis of the socio-economic background section in the context of a range of policy actions in order to maximise the value added of the Structural Funds. This context must be established at different levels to ensure funding not only complements but builds on existing policy. Specifically, the ESF Programme should fit within and alongside:

- the EU policy context: the Community Strategic Guidelines, which sets the indicative framework for the Cohesion Policy in support of the EU's growth and jobs commitments, the UK's National Strategic Reference Framework, as specified in Article 25 of the General Regulation, in which the chapter on Scottish Structural Funds goals provides the overall framework for Structural Funds spending in a Scottish context, the Integrated Guidelines on Growth and Jobs, as approved by the European Council in June 2005, and the European Employment Strategy recommendations;
- the UK policy context: the UK's National Reform Programme, detailing how the UK as a whole is addressing the challenges and targets developed as part of the wider Lisbon agenda, to which the Structural Funds are intended to contribute; and, lastly,
- the domestic policy context in the region.

Figure 1 illustrates how these different policy tiers should combine in the Programme.

Figure 1: Hierarchy of strategic objectives



The following section presents the key links between the challenges identified in the socio-economic background with these different tiers of policy guidelines and actions. By showing the consistency between what the ESF programme has identified as a key area for action and the priorities identified by other policies, it will help to highlight where Structural Funds can provide added value in addressing the key challenges. This will form the basis for the strategy and priorities for action set out in the following chapter. In addition, there are three cross-cutting strategic themes which will inform all aspects of the Programme – equal opportunities, environmental sustainability and social inclusion. These are treated in Chapter 8.

EU policy context

Community Strategic Guidelines

Article 23 of the Structural Fund Regulations provides for the Council to establish Community Strategic Guidelines to provide an indicative framework for Structural and Cohesion Fund programmes. Based on the Commission's 2005 Communication, three main Guidelines for future spending have been identified:

- improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and
- creating more and better jobs by attracting more people into employment, entrepreneurial activity, improving the adaptability of workers and enterprises and increasing investment in human capital.

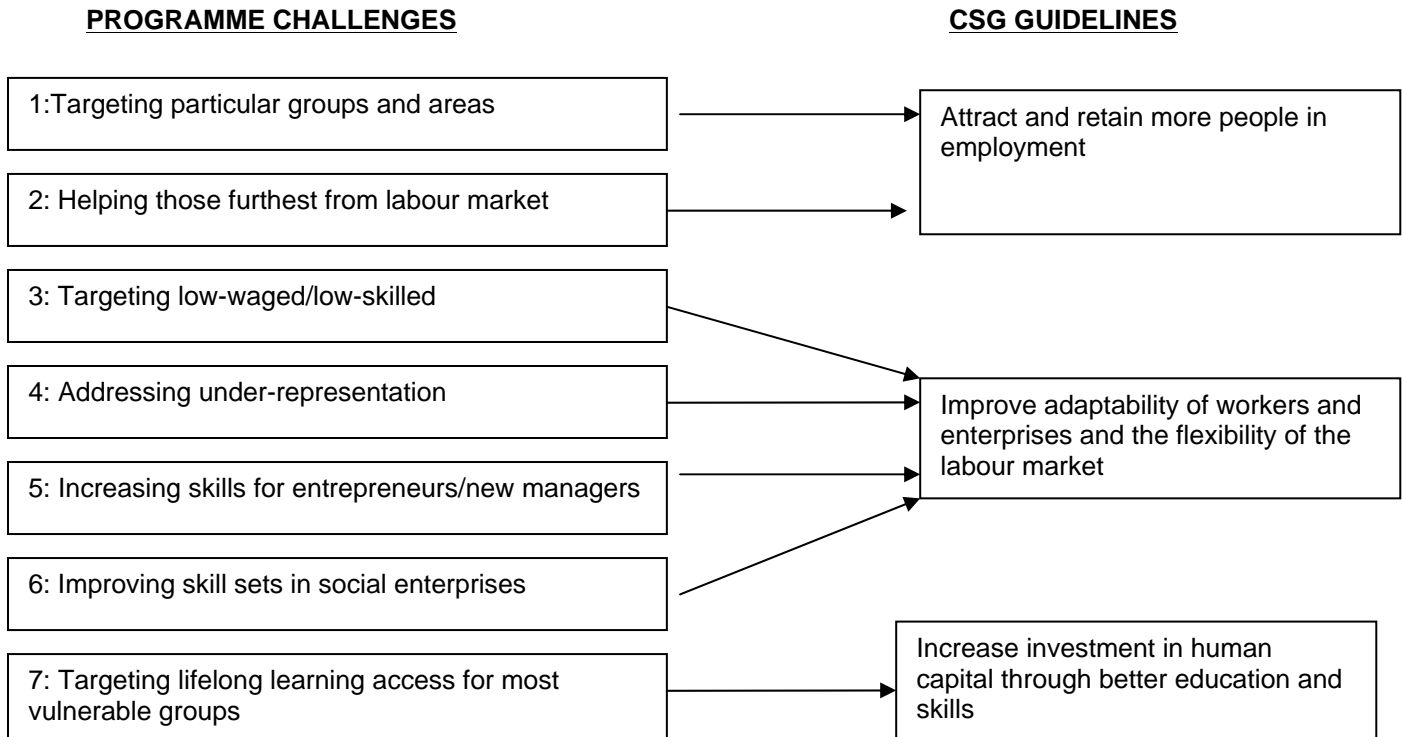
Given its focus, the key challenges of the Programme identified in Chapter 2 principally fit within the third Guideline, although there are notable links with the Guidelines on innovation, entrepreneurship and the knowledge economy. The third Guideline ('more and better jobs') has several areas of focus, which map onto the key Programme challenges set out at the end of Chapter 2:

- attract and retain more people in employment and modernise social protection systems: the Programme could raise employment rates across the region under:
 - Key challenge 1 by addressing the acute problems of worklessness of specific groups and in particular areas
 - Key challenge 2 by targeting those individuals who are furthest from the labour market and require more intensive assistance;
- improve adaptability of workers and enterprises and the flexibility of the labour market: the Programme could contribute to more sustainable employment and a more flexible workforce under:
 - Key challenge 3 by improving the ability of the low-waged and low-skilled workers to retain employment and progress through the labour market

- Key challenge 4 by tackling gender earnings gaps and under-representation in the labour market
- Key challenge 5 by improving the entrepreneurial skills base of the region
- Key challenge 6 by giving social enterprises the business skills they require to contribute to both this Guideline and the previous one;
- increase investment in human capital through better education and skills: the Programme could make a lasting contribution to lifelong learning goals by improving the region's training systems under:
 - Key challenge 7 through increasing access to the infrastructure and services for the most vulnerable groups in the region; and
- administrative capacity: technical assistance will partly be used to improve the administrative capacity of Structural Funds delivery, particularly with respect to the Intermediate Administration Body, as described in Chapter 7 below.

The Guideline also allows for support to maintain a healthy labour force, though the Programme is only likely to make indirect contributions to this goal, as there is no direct focus on health-related activities. Lastly, the Programme could address the second Guideline on entrepreneurship and the knowledge economy, particularly through targeted action on key challenge 5 above in line with the promotion of entrepreneurship. The key links between the Guidelines and the key Programme challenges are summarised in Figure 2.

Figure 2: Programme challenges and the Community Strategic Guidelines



The Guidelines also discuss the territorial dimension of cohesion policy. For example, the need to address urban regeneration acts as cross-cutting themes across all the Guidelines. It is explicitly noted that within the Structural Funds, “actions supported [should] include measures to promote entrepreneurship, local employment and community development”. The Guidelines also point to the importance of contributing to plans for urban regeneration within the designated areas.

The issues identified in the Programme are for the most part common across the region as a whole. However, targeting will be applied in Priority 1 of the Programme, which will address the need for an urban dimension in the Programme, as issues of worklessness are particularly acute in some of the region’s urban areas. This is in line with the Guidelines focus on the contribution of cities to growth and jobs and is outlined in greater detail in Chapter 4.

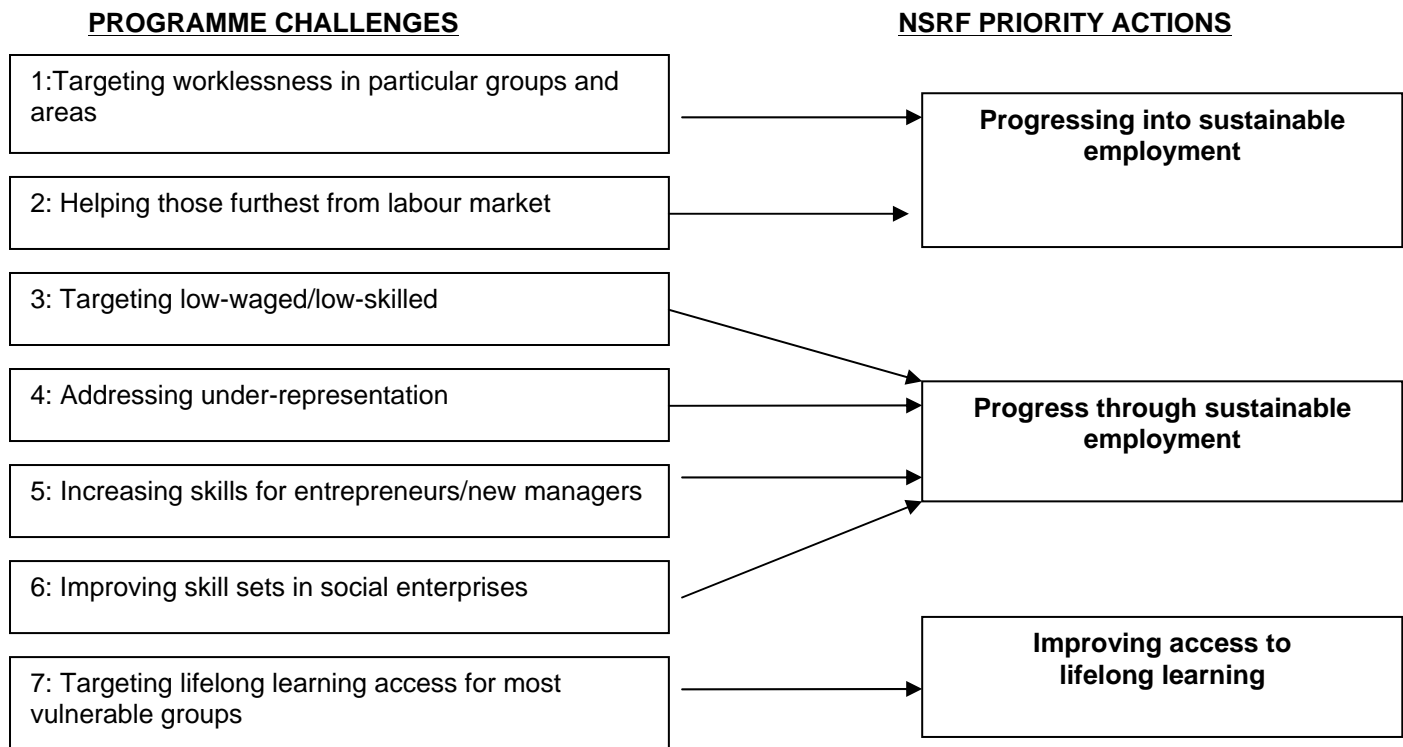
UK National Strategic Reference Framework

The UK National Strategic Reference Framework (as required by the General Structural Fund Regulation, Article 25) provides a reference instrument for drawing up Programmes to ensure that Structural Funds spending is consistent both with the Community Strategic Guidelines and the Member State’s National Reform Programme for delivering the Lisbon Agenda. In the UK NSRF, there is a dedicated chapter to Scotland.

Overall, the UK Framework sets out the Government’s central economic objective to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all. In Scotland, the primary aim is to contribute to the sustainable economic growth of the region through improvements in productivity while addressing social inclusion and environmental sustainability needs. The European Social Fund will contribute to these strategies to increase employment and raise skill levels.

The Scottish chapter sets out three sets of priority actions for the ESF Programme under the Competitiveness Objective. These embody the key Programme challenges set out above and will match to the priorities presented in Chapter 4. Figure 3 shows the links between the NSRF priority actions and the challenges.

Figure 3: Programme challenges and the National Strategic Reference Framework



Integrated Guidelines for Growth and Jobs

The June 2005 European Council approved the Integrated Guidelines for Growth and Jobs for the period 2005-2008. There are now 24 Guidelines incorporating the previously separate Broad Economic Policy Guidelines and Employment Guidelines. These Guidelines fit into the Programme challenges as follows:

17. Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion
 - *Programme challenges 1-6*
18. Promote a lifecycle approach to work
 - *All Programme challenges*
19. Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people and the inactive.
 - *Programme challenges 1-6*
20. Improve matching of labour market needs.
 - *Programme challenges 1-6*

23. Expand and improve investment in human capital.
 - *Programme challenges 7*
24. Adapt education and training systems in response to new competence requirements.
 - *Programme challenges 3-7*

European Employment Strategy Recommendations

The European Employment Strategy determines how the Lisbon Growth and Jobs Agenda can be achieved in the areas of employment, employability and social inclusion policy. In reviewing the positions of the labour markets in the different Member States, the 2004 Recommendations noted the following about the UK:

The UK exceeds all the employment rate targets, including those for women and for older workers. However, concentrations of economic inactivity, and to a lesser extent unemployment, persist in certain communities and amongst particular groups. Productivity levels, especially as expressed per hour worked, remain comparatively low. This is in part due to the prevalence of low skills amongst the workforce, including insufficient basic skills. The gender pay gap remains one of the widest in the EU. The United Kingdom should give immediate priority to:

- *ensuring that wage trends do not exceed productivity gains:*
 - this is not relevant to the Structural Funds activity in this context;
- *ensuring that active labour market policies and benefit systems prevent de-skilling and promote quality in work, by improving incentives to work and supporting sustainable integration and progress in the labour market of inactive and unemployed people; addressing the rising number of people claiming sickness or disability benefits, and giving particular attention to lone parents and people living in deprived areas:*
 - This is particularly relevant to Programme challenges 1-3 by assisting those with particular difficulties in achieving sustainable employment;
- *improving the access to and affordability of childcare and care for other dependants, increasing access to training for low paid women in part-time work, and taking urgent action to tackle the causes of the gender pay gap:*
 - This is particularly relevant to key Programme challenges 1-7, not least by recognising the need to provide support to beneficiaries with caring responsibilities – gender pay and representation issues are explicitly acknowledged in Programme challenge 5;
- *implementing national and regional skills strategies, with particular emphasis on improving literacy and numeracy of the workforce, the participation and achievement of 16-19 year olds, and low-skilled workers in poorly paid jobs:*
 - This is particularly relevant to all the Programme challenges.

UK policy context

The UK National Reform Programme details the challenges currently facing the UK economy, and sets out the Government's strategy for delivering long term sustainable growth, high employment and a fair and inclusive society. As explained in the UK's National Reform Programme, the Government's overall approach to increasing growth in the UK economy is based on maintaining macroeconomic stability and driving forward lasting improvements focused on employment and the five drivers of productivity: competition, enterprise, innovation, investment and skills.

The Government believes that radical labour market reform aimed at getting more people into employment is key to delivering economic growth and ensuring the long-term fiscal sustainability of the economy. A flexible and job-creating labour market is especially important for competing in today's increasingly global markets. By boosting productivity and employment, it helps ensure that the gains of economic growth go to the many rather than the few.

The National Reform Programme sets out the Government's aim of employment opportunity for all and its aspiration of an 80% employment rate and the need to help a further 2.5 million people into work. Getting more people into employment is key both to delivering economic growth and to building a more inclusive society. Policies to promote employment include the New Deals (focusing on long-term unemployment) and Pathways to Work (offering a range of support). Any Structural Funds activity addressing Programme challenges 1-2 in particular will add value to the employment strategy set out in the National Reform Programme.

With regards to productivity, the evidence for focusing on the five drivers was set out in *Productivity in the UK: The Evidence and the Government's Approach*, which was published alongside the Government's Pre-Budget Report in 2002. The National Reform Programme sets out the UK Government's strategy to:

- raise skills levels in the workforce by: increasing participation in education at age 17 from 75% to 90% over the next ten years;
- ensure 2.25 million adults improve their basic skills over the period 2001 to 2010; and
- reduce the number of adults in the workforce without a level 2 (upper secondary) qualification by at least 40%.

Again, activity in support of key Programme challenges 4-9 will add value to the skills strategy in Scotland, through additionality enabling the targets to be exceeded or met earlier.

In this context, it is worth drawing attention to the Leitch Review of Skills. Published in 2006, the Review argued that the UK needed to raise urgently achievements at all levels of skills and recommended that it commit to becoming a world leader in skills by 2020, benchmarked against the upper quartile of the OECD. This means doubling attainment at most levels of skill. The Review echoes nearly all the key challenges

set out in the socio-economic analysis – implementing its recommendations is something to which the Structural Funds could make significant contributions.

Scottish policy context

The Framework for Economic Development in Scotland

FEDS, refreshed in 2004, sets the overall strategy for developing the Scottish economy. Its vision is:

to raise the quality of life of the Scottish people through increasing the economic opportunities for all on a socially and environmentally sustainable basis.

To achieve this, FEDS has a set of enabling as well as principal outcome objectives. The latter are:

- economic growth: with growth accelerated and sustained through greater competitiveness in the global economy;
- regional development: with economic growth a pre-requisite for all regions to enjoy the same economic opportunities, and with regional development itself contributing to national economic prosperity;
- closing the opportunity gap: with economic growth a pre-requisite for all in society to enjoy enhanced economic opportunities, and with social development in turn contributing to national economic prosperity; and
- sustainable development: in economic, social and environmental terms.

Central to these four outcomes is a long-term strategy to improve the productivity of the Scottish economy. As in the wider UK strategy, one of the key factors in this is the generation and full economic use of knowledge; FEDS acknowledges that Scotland needs to adapt to knowledge-intensive global markets rather than the labour-intensive markets in which it has successfully competed in the past. In addition, FEDS recognises the importance of lifelong learning as an underpinning factor in achieving this.

The key challenges faced by the region all fall within this broad framework of the Scottish economic development challenges set out by FEDS. Within this Framework, specific issues are covered by the respective strategies discussed below. In addition, the partnership approach espoused by the Framework in terms of policy delivery closely mirrors the approach in the ESF Programme.

Workforce Plus – An Employability Framework for Scotland

Published in 2006, the Employability Framework complements UK Government activity to promote economic growth and sustainable development, reduce disadvantage and inequality and to end child poverty. The Framework sets a target of assisting 66,000 individuals in seven local government areas of particular deprivation to move off benefits and into employment. The Framework identified six

themes where more co-ordinated and targeted policy can achieve this:

- interventions at an early stage;
- more client-focused interventions;
- employer engagement;
- support towards sustaining as well as progressing employment;
- more joined-up planning and delivery of services within the public sector; and
- a focus on better outcomes.

The analysis fits with the socio-economic analysis in Chapter 2. Under Programme challenge 1, Chapter 2 recognised that the problems of worklessness were particularly acute among particular groups and in certain areas. Under Programme challenge 2, the need to help those furthest from the labour market was identified as a key need, a conclusion also drawn in Workforce Plus, which drew attention to the existing focus of domestic policy on those closest to gaining employment. The Structural Funds can provide added value within this strategic framework by supporting activity that will target more client-focused interventions as well employer engagement. Through the partnership approach set out in Chapter 7, the Programme will encourage more joined-up planning, both because the EU funding will need to be match-funded with domestic funding and because project decisions will be made through the Programme Monitoring Committee which will bring together the main resource providers and delivery groups for these services. Moreover, the Framework further acknowledges that local employment partnerships are the more effective delivery channel for such employability activity. This approach is reflected in the ESF Programme and the use of partnerships in project delivery, also as set out in Chapter 7.

Closing the Opportunity Gap

Closing the Opportunity Gap is the Scottish Executive strategy aiming to prevent individuals and families from falling into and to provide routes out of poverty. It sets two relevant targets to tackle poverty and disadvantage:

- to promote community regeneration of the most deprived neighbourhoods, through improvements in employability, education, health, access to local services and quality of the local environment; and
- to improve service delivery in rural areas so that agreed improvements to accessibility and quality are achieved for key services in remote and disadvantaged communities.

In 2004, this was translated into a set of six objectives with a particular focus on areas of particular deprivation:

1. to increase the chances of sustained employment for vulnerable and disadvantaged groups – in order to lift them permanently out of poverty;

2. to improve the confidence and skills of the most disadvantaged children and young people – in order to provide them with the greatest chance of avoiding poverty when they leave school;
3. to reduce the vulnerability of low income families to financial exclusion and multiple debts – in order to prevent them becoming over-indebted and/or to lift them out of poverty;
4. to regenerate the most disadvantaged neighbourhoods – in order that people living there can take advantage of job opportunities and improve their quality of life;
5. to increase the rate of improvement of the health status of people living in the most deprived communities – in order to improve their quality of life, including their employability prospects; and
6. to improve access to high quality services for the most disadvantaged groups and individuals in rural communities – in order to improve their quality of life and enhance their access to opportunity.

The ESF Programme embodies – directly as well as indirectly – these Closing the Opportunity Gap objectives. The strongest links are through the first and fourth of these objectives and Programme challenge 1, with the focus on particular client groups and areas.

Regeneration Policy Statement

In 2006, Closing the Opportunity Gap was supplemented by the Scottish Executive's People and Place: Regeneration Policy Statement, which states that regeneration is central to achieving the main goal of sustainable economic development. The Regeneration Policy Statement integrates public, private, voluntary and community sector activities to sustainable regeneration. It defines the regeneration challenge for Scotland:

Regeneration is a crucial part of growing the economy and improving the fabric of Scotland... Our aim is to turn disadvantaged neighbourhoods into places where people are proud to live. To turn places that have been left behind into places connected with the opportunities around them. To create areas of choice and areas of connection, rather than inward-looking places excluded from the wider successful Scotland around them. To build mixed and vibrant communities that sustain themselves.

The Regeneration Policy Statement recognises that this can only be achieved through an integrated policy approach that goes beyond investment in the physical infrastructure of these areas: *the economic, social, physical and environmental aspects of regeneration requires an integrated approach which 'joins up' planning and delivery across these aspects, so that change is mutually reinforcing.* At the same time, it must be an approach based on partnership, as no single organisation can deliver all of these outcomes.

One key instrument to take forward this and other strategies are the Community Planning Partnerships (CPPs). The CPPs, one for each Local Authority area, set out how the relevant partners at local level intend to combine their activities to achieve regeneration outcomes. The CPPs consist of partnerships of the key partners involved in local regeneration including the Local Authority, voluntary sector organisations, local Health Boards and other relevant bodies.

Structural Funds can be an important instrument for integrating funding in support of the social inclusion and employability aspects of the regeneration agenda, particularly with respect to the Programme challenges 1-2. As noted above, the Funds role as a match-funder and the partnership-based approach underlying its delivery through the Programme Monitoring Committee. As described in Chapter 7, there is scope in the Programme for using partnerships to deliver funding in support of these objectives.

NEET Strategy – More Choices, More Chances

One of the most difficult-to-reach groups of individuals outside the labour market are young people who are 'not in education, employment or training' (NEET). These are concentrated in seven areas in Scotland which require particular policy interventions, complementing the work being taken forward as part of the Employability Framework and Closing the Opportunity Gap. The NEET Strategy – launched in 2006 – has a set of objectives:

- to stem the flows into NEET (ie. prevention rather than cure);
- to have a system-wide (pre and post 16) focus on, ambitions for, ownership of – and accountability for – the NEET group;
- to prioritise education and training outcomes for the NEET group as a step towards lifelong employability, given their low attainment profile; and
- to position NEET reduction as one of the key indicators for measuring the pre- and post-16 systems' success.

It aims to achieve this through five priority areas of intervention: opportunities for young people of school age; post-compulsory education and training; financial incentives for employment, education and training; removing the barriers to accessing opportunities; and co-ordination of national and local leadership in delivery.

Under Programme challenge 1, one of the key groups identified for support targeted in the socio-economic analysis was the NEET group. It also recognised the concentrations of this group in particular parts of the region. Structural Funds can complement the NEET strategy, particularly through assistance for removing the barriers to accessing opportunities, both through giving the appropriate skills and support to those in the NEET group as well as in employer engagement activity.

A number of other policies are being taken forward for the school sector which will have an impact on young people's employment prospects on leaving school. These

are: Curriculum for Excellence; with its focus on the four capacities of the individual; Determined to Succeed, which increases awareness of, and enthusiasm for enterprise and entrepreneurship; and the School – College Review; which is aimed at increasing the range of opportunities open to young people of school age.

Smart Successful Scotland

Scottish Executive policy for developing the enterprise sector has been set out in Smart Successful Scotland, which was refreshed in 2004. The strategy not only lays out the goals of the Scottish Enterprise – the key economic and skills development agency in the Lowlands & Uplands Scotland region – but acts as a framework for co-ordinating enterprise development policy more widely. It has a vision consisting of three outcomes:

- growing businesses: a fast learning, high earning Scotland;
- global connections; and
- learning and skills.

Under the last outcome, a set of priorities have been defined:

- improving the operation of the Scottish labour market by improving the adaptability of the Scottish labour force and the labour market mechanisms contributing to that adaptability (especially in lifelong learning);
- the best start for all young people through good training support and opportunities;
- narrowing the gap in unemployment; and
- improved demand for high quality in-work training.

Under the second of these goals ('developing skills'), the strategy links strongly with several Programme challenges:

3. targeting low-waged/low-skilled workers: ensuring that support is concentrated on those groups which have most difficulty in achieving sustainable employment;
4. addressing the gender pay gap and representation: providing specific support to redress the remaining gender imbalances in the labour market;
5. increasing entrepreneurial skills: targeting the skills needed by entrepreneurs to develop sustainable enterprises; and
6. improving social enterprise skills: recognising that social enterprises have particular skills needs to ensure that they can contribute to addressing all Programme challenges.

Through the strategy, Scottish Enterprise delivers a number of training programmes. Get Ready for Work supports 16-to-18 year olds in identifying their training needs and their employment aspirations and provides a training allowance and opportunities for 'work tasters'. Skillseekers targets young people who have left work

and are seeking basic qualification levels to enable them to enter employment. Modern Apprenticeships is also focused on young people by helping them into paid employment with a view to gaining job-related skills.

Lifelong Learning Strategy

Life Through Learning, Learning Through Life sets out the Executive's strategy for Lifelong Learning to 2008. It is concerned with post-compulsory education, training and learning and recognizes the need to address the:

- opportunity gap between those who achieve their potential and those who do not;
- skills gap between those in work and those who are not; and
- productivity gap between Scotland and the world's leading economies.

To achieve these strategic aims there is a need to promote work based learning as part of the overall lifelong learning agenda through a two-pronged approach that both encourages individual learners to participate in lifelong learning and employers to support lifelong learning both in and beyond the workplace. The strategy has five goals, creating:

- a Scotland where people have the confidence, enterprise, knowledge, creativity and skills they need to participate in economic, social and civic life;
- a Scotland where a high quality learning experience is delivered;
- a Scotland where people's knowledge and skills are recognised, used and developed to best effect in their workplace;
- a Scotland where people are given the information, guidance and support they need to make effective learning decisions and transitions; and
- a Scotland where people have the chance to learn, irrespective of their background or current personal circumstances.

The strategy underpins the approach needed in support access to lifelong learning in Programme challenges 7 and 8, which identify needs in the access and quality of training provision in the region.

In addition, there are specific learning needs for part of the workforce. For migrant workers, the Adult ESOL (English for Speakers of Other Languages) Strategy is particularly relevant. This aims to improve the quality and quantity of provision for all those who need help in this area with a particular focus on asylum seekers and refugees, people from settled minority communities, and migrant workers. The definition of eligible activities in Priority 1 has taken special attention of the issue. In this context, the role of the Executive's Fresh Talent Initiative is important in encouraging people coming to live and work in Scotland - it echoes the challenges in the Programme in helping migrant workers in the region.

Other Key Strategies

In addition to these overarching strategies, there are a number of other related policy areas, where Scottish Executive strategies will inform and complement activity in the ESF Programme.

On the specific issues facing individuals with mental health problems, the Scottish Programme for Improving Mental Health and Well-being aims to improve the mental health and well-being of everyone living in Scotland, and improve the quality of life for people experiencing mental health problems and mental illness. The publication – ‘With Work in Mind: The Evidence Base for Change’ – sets out the size and nature of the workless client group with experience of mental health problems. This forms another key group that should be addressed through Programme challenge 1. Similarly, the Scottish Executive’s Healthy Working Lives action plan links the importance of health and employability, particularly for individuals with health-related problems or disabilities, and has a series of actions that overlap with the first Programme challenge.

Effective and confident literacy and numeracy skills contribute to closing the opportunity gap in Scotland, including equipping people to fulfil their employability. These have been identified as a critical area for intervention in the Adult Literacy and Numeracy Strategy. By 2008, £65 million will have been invested through community learning and development strategies. From 2001 to 2005, over 100,000 new literacies learners have been supported across Scotland. The Big Plus awareness raising campaign, and the Big Plus for Business toolkit to raise employer awareness of workplace literacies, has been launched to encourage their staff in developing these skills, a set of activities that fit with the literacy/numeracy skills issues set out in Priority 2. It has also been recognised that skills in using a computer are standard for all – that is why the universal offer for Individual Learning Accounts targets ICT skills. Lack of such skills are a common feature of many of the groups identified in Programme challenge 1 in the socio-economic analysis.

The Scottish Childcare Strategy will aim to provide affordable, accessible, good quality childcare in every neighbourhood, supported by Childcare strategy funding from the Executive to local authorities. Childcare has an important role to play in labour market growth and family prosperity by helping people back into work or training as well as supporting childcare enterprises. The Working for Families programme supplements these with further support for parents in disadvantaged areas and groups, supplemented by the childcare element of working tax credit for those on a low income, to get the affordable and flexible childcare they require. Lack of childcare has been seen as a barrier to individuals being able to participate more sustainably in the labour market and is recognised as a key issue in Programme challenge 4 (addressing the gender pay gap and workforce representation).

The social economy sector is already delivering a number of employment and training opportunities for the long-term unemployed. The success of the sector in this area rests with the experience such organisations have of working with their clients, the confidence that they inspire in their clients and the one-to-one support that they

are frequently able to offer. The Scottish Social Enterprise Strategy will set out the social economy as a key area is creating employment and development opportunities for those furthest from employment through helping to make social enterprises more sustainable and competitive. Priorities for supporting the sector in the strategy will complement the focus on the social economy within the ESF Programme. The importance of this goal is explicitly recognised in Programme challenge 6.

3.2 Lessons from 2000-06 Programming

Structural Funds programming in Scotland has always built on the experience of earlier programmes, maintaining the good practice while adapting to new circumstances. In developing the ESF Programme for the LUPS region for 2007-13, the lessons of the 2000-06 use of European Social Fund in Scotland were examined from a number of different perspectives. This section summarises the key studies drawing on those lessons:

- the mid-term evaluation update of the Objective 3 programme;
- the study of social inclusion activity supported by ESF for the mid-term updates, conducted by EKOS;
- the 2005 beneficiaries survey conducted by MORI;
- the 2005 report of an internal Value Added Group on how to increase the value added of future Structural Funds programmes;
- the 2006 Hall Aitken report on options for delivering Structural Funds programmes.

Mid-term evaluation update of the Objective 3 Programme

In 2005, the 2000-06 Scottish Objective 3 Programme was assessed as part of the mid-term evaluation update of Structural Funds. The update set out a number of conclusions and recommendations that informed the development of the 2007-13 ESF Programme for Lowlands & Uplands Scotland, particularly with respect to the focus of assistance on certain groups and activities.

- Individuals who remain outside the workforce often face multiple barriers to progressing into sustainable employment. Considering these groups by length of time unemployed, age, sex, etc has tended to lead to less effective interventions. There is a need to address the person's needs as a whole and employers' perceptions, and to be as flexible as possible in accepting a range of interventions as eligible activities.
 - *The 2007-13 Operational Programme will give greater weight to projects that link together support for the totality of challenges facing key client groups. This will be reflected in the eligibility criteria under Priority 1, as set out in Chapter 4.*

- For those groups which are farthest from sustainable employment, there is a need to acknowledge that progress can be slow and soft outcomes and movement towards the labour market must be encouraged, rewarded and sustained over a considerable period. There are few short-term interventions for these client groups.
 - *The 2007-13 Programme gives emphasis to supporting these groups as seen in the Priority 1 description in Chapter 4 and to measuring outcomes and impacts through a greater use of 'soft' indicators, as described in Chapter 9.*
- Local variations and labour market needs have to be better catered for. Strategic fit has to be not just at national level, but also has to be based on local partnership plans.
 - *Delivery of Priority 1 on sustainable employment will include supporting partnership action plans, especially through the Community Planning Partnerships described in Chapter 6.*
- Projects which encouraged and supported a network involving a range of partners, including economic development bodies, local and national government policy makers, front line delivery bodies such as health and social services tended to be innovative and focused on their clients' needs. They were more likely to leave a lasting legacy, and to work together again. The Development Partnerships established in the 2000-06 Equal Initiative in Scotland were good models of this.
 - *The Equal thematic partnership approach has been used as the model for the partnership approach to delivery, as envisaged for the CPPs under Priority 1 and described in Chapter 6.*
- Access to post-school education for those not participating could be highly effective where there was a high degree of innovation and flexibility in the approach on offer. Tasters of a non-academic nature, or outside the normal further or higher education buildings were often more welcome (eg. learning centres in Housing Association offices or youth clubs).
 - *This activity continues to be encouraged through Priority 3 of the new Programme, as described in Chapter 4.*

EKOS social inclusion study

As part of the mid-term evaluation update, a specialist study was commissioned of EKOS Consultants in 2005 to review the effectiveness of social inclusion Measures within the Objective 3, Objective 2 West of Scotland, as well as the Highlands & Islands Special Transitional Programme in the 2000-06 programming period. It made the following recommendations, which have taken into account in developing the current Programme as follows:

- The categorisations of key client groups should be linked to standard statistical sources to enable quantification of the number of individuals being reached by the Programme.

- *This recommendation has informed the development of the monitoring and evaluation indicator framework for the new Programme, set out in Chapter 9.*
- Project administration requirements should be looked at again in relation to key match-funding programmes, seeking to streamline and complement where possible.
 - *This recommendation is being pursued as part of the simplification and streamlining of administrative procedures in the new Programme and will be reflected in the new Guidance.*
- There continues to be a requirement for improved strategic co-ordination of ERDF and ESF funding streams. It may be appropriate to use structures such as Community Planning Partnerships to facilitate this discussion at a local level.
 - *A recommendation which lies behind the delivery arrangements for Priority 1 in the new Programme, as set out in Chapter 7.*
- Longer-term tracking of individuals would be desirable in order to provide a more realistic time frame for job seekers to achieve results, as well as to demonstrate sustainability of outcomes.
 - *Again, the new evaluation and monitoring framework is giving greater weight to tracking outcomes in this way.*

MORI beneficiaries survey

In 2005, a GB-wide beneficiaries survey was also commissioned, to follow up individual beneficiaries of projects supported under the ESF programme, who took part in the different EU programmes in 2004. For this research, separate surveys were conducted in England, Wales and Scotland, building on similar work conducted in earlier years and carried out by MORI. It has the most relevance for the development of Priority 1, as set out in Chapter 4.

The findings showed that in general, expectations beneficiaries had on joining a course were met and often exceeded, with most people reporting that they had developed both 'hard' and 'soft' work-related skills. Indeed, four in five beneficiaries attained a qualification on completion of their course. It is also instructive to note that gains and improvements appeared to be relatively well-focused on key groups of beneficiaries. Non-working entrants – whether they are actively seeking work or are inactive – clearly benefited not only from targeted, skills-based training but also from the development of 'soft' skills relating to their self-confidence. As a result, eligibility under Priority 1 will continue to include such 'soft' skills, not least as this is particularly critical for the targeted client groups identified in Programme challenge 1.

Furthermore, there was evidence of upskilling among beneficiaries who were employed on entry. This group cited a wide range of skills development, in particular improving practical skills relating to a particular job, as well developing IT and study skills. A key outcome, however, for any ESF-funded training was whether beneficiaries improved their labour market status. From the two-stage survey

process, it was possible to see a clear and positive move from unemployment to employment for many beneficiaries. The proportion of beneficiaries in the second wave of research who were employed rose from 32% on entry to 50% at the time of the survey. This represented a 56% increase in employment. While this research was not set up as an empirical evaluation to establish a causal link between attendance on the ESF course and subsequent labour market activity, the majority of those who moved into a new job felt that participation in the course had helped them to do so.

Moreover, even if they were not moving directly into work, inactive entrants were moving in the direction of work: a third of those who were unemployed at the time of the survey (30%) and nearly half of those in education (47%) had been inactive on entry. This is a major finding of this research – that inactivity is being directly addressed by the ESF in Scotland. It should also be noted, however, that unemployment levels are affected by this move. Rather than falling, unemployment actually rises from entry to leaving a course (from 18% to 29%) and is still higher than at the beginning of the process by the time of the survey (24%). While this rise may be seen as a disappointment, it should be recognised that the ‘direction of travel’ is a positive one. This is reflected in the 2007-13 Programme through Programme challenge 2, which identified the need to target funding on those furthest from the labour market and in need of the most assistance.

The survey concluded that the challenge for the ESF in Scotland was to maintain the increase in employment so that inactive and unemployed beneficiaries were able to make that final transition. This underpins the focus of Priority 1 in the 2007-13 ESF Programme.

Value Added Group: ‘Adding Value, Keeping Value’

As part of the preparations by the Scottish Executive for developing Structural Funds programmes for the 2007-13 period, a short-life internal working group was set up in 2005 to draw lessons on the ‘value added’ of the Structural Funds for the 2007-13 Scottish programmes. The specific objectives of the Group were the following:

- to identify the types of projects that have provided the highest added value in the 2000-06 programmes;
- to consider the characteristics of those projects which have made them particularly successful;
- to define added value in the context of Structural Funds programmes; and
- to assess how best to encourage development of such projects within the regulations governing future Structural Funds.

The Group was drawn from the European Structural Funds Division and the Programme Management Executives for the 2000-06 programmes. It concluded the following of relevance to the current Programme.

- In future, a greater premium should be placed on qualitative value added in project selection. This was not to suggest that value added should not have a strong quantitative dimension, but that qualitative value added should be a priority. In practice, this meant that Structural Funds could usefully support pilot, innovative projects.
 - *The importance of an innovative approach to projects is reinforced in the Programme, as discussed under each of the Objectives in more detail in Chapter 7.*
- Consideration should be given to providing a greater time limit on project funding in future. If the focus is on supporting qualitative projects, Structural Funds should have the role as a major lever for the early stages of a project's development. 'Repeat' projects or longer-term continuations should be discouraged unless there are strong operational reasons for doing so. As a result, project awards would be for a minimum of two years, though with annually-set targets and reviews.
 - *This conclusion will be reflected in the new guidance to be issued to applicants and in the section on innovation in Chapter 4.*
- Partnership has been a critical factor in supporting value added, particularly when applied in particular ways. Partnership at a local/regional level in project development is important, often acting as 'brokers' for development activity (a role that has been supported through Structural Funds support). Where projects and activities have been developed through a networked, inter-agency approach, project quality appears to have been driven up.
 - *Chapter 7 sets out the role of partnership in delivering parts of the Programme.*
- The continuing promotion of key shared policy goals should continue, particularly the horizontal themes. The Structural Funds have played a pivotal role in promoting equal opportunities and sustainable development as wider policy goals and should continue to do so.
 - *This is reflected on the continuing emphasis on the mainstreaming of these three horizontal themes, as set out in more detail in Chapter 8.*

Value added has also been apparent where funding has been co-ordinated through a series of activities targeting a common goal. Whether the co-ordination is of different types of funds (ERDF, ESF and other sources of EU funding) or different types of projects (through project clusters), their impact is strongest when geared towards a specific development goal. In Structural Funds, these goals have been most readily achieved when defined in terms of local geography (especially through community economic development) or niche sectors (particularly through targeted enterprise development activities). The focused approach is reflected in the targeted nature of the priorities described in Chapter 4.

Hall Aitken: 'Making Every Euro Count'

As part of the preparations for developing the 2007-13 programmes, the Scottish Executive commissioned a report of Hall Aitken Consultants in 2006 with several objectives:

- to identify a series of delivery options for single-stream funding of Structural Funds and other domestic policy resources, based on 2000-06 practice elsewhere in the EU;
- to draw out comparative lessons with a view to setting out options for Scottish delivery; and
- to set out options for Scotland.

On this basis, the report concluded that any approach should achieve as many of the following criteria as possible:

- minimise the administrative costs of operating projects;
- direct funds to where they will make the most difference in terms of economic need, opportunity and delivery capacity and quality;
- build on existing structures, partnerships and systems where possible and be developed with the support of stakeholders;
- shift the focus of effort from project selection to effective delivery and monitoring;
- integrate Structural Funds actions more closely with related domestic policy actions;
- retain sufficient flexibility to respond to changes in need and opportunity during the programme lifetime and ensure that projects address both issues;
- promote the horizontal themes; and
- spread learning and good practice.

The delivery mechanisms for the programmes – set out in detail in Chapter 7 – were developed with these conclusions in mind. They have also been designed to make use of the following range of elements, set out by Hall Aitken as mechanisms that could be used in delivering the programmes:

- area and local outcome agreements: the partnership-based approach to delivery for parts of the Programme set out in the Priority 1 description in Chapter 4 reflects this mechanism;
- competition between single-stream funding bodies: again, as the Priority 1 description details, competition is anticipated between partnerships for the delivery of parts of the Programme; and
- thematic partnerships: in line with the above bullet points, the partnerships will be expected to show thematic complementarity in the supported activity.

4 STRATEGY AND PRIORITIES

4.1 Programme Vision

The strategy for the ESF Competitiveness Programme proceeds from the identification of key challenges within the socio-economic analysis (in Chapter 2), the need for actions to fit with EU, UK and Scottish policy frameworks and the experience of previous programming (in Chapter 3). The socio-economic analysis described how the region has clear strengths and opportunities on which it can build – such as its achievement of the Lisbon employment rate goal– while recognising a range of significant weaknesses and challenges – deriving from low productivity, high rates of worklessness (particularly among certain groups and in certain areas) and a range of skills deficiencies. Seven challenges have been identified:

1. Reducing the acute levels of worklessness in certain groups and areas.
2. Improving employment rates in those groups facing multiple barriers.
3. Increasing the ability of the low-waged and low-skilled to remain in, and progress through the labour market to achieve financial security.
4. Tackling gender representation in key occupations and sectors of under-represented groups.
5. Increasing the skills of entrepreneurs and new managers
6. Providing social enterprise managers and workers with greater skills to sustain their organisations.
7. Increasing lifelong learning participation rates among the most disadvantaged groups.

Structural Funds in the Competitiveness Programme are limited. The EU resources in the ESF programme are €269.921 million for 2007-13, resulting in a total programme value of €598.526 million. In light of current developments in the EU, the funding may be the last substantial funding of this scale for the region, and so it is essential that the Programme aims to deliver lasting legacies to the region that will extend beyond the programming period. Consequently, the strategy for the ESF Programme for the Lowlands & Uplands Scotland area is set by its overall vision:

to contribute towards sustainable growth in the size and skills of the Scottish workforce in line with the Lisbon Jobs and Growth Agenda, in a climate which offers equality of opportunities to individuals to achieve their full potential.

The Programme does not operate in isolation, but as Section 3.1 stressed, Structural Funds are intended to complement key domestic policies, particularly the Workforce Plus (Employability Framework), Closing the Opportunity Gap, the NEET Strategy, Smart Successful Scotland and the Scottish Lifelong Learning Strategy. Sustainable development, social inclusion and equal opportunities will remain key themes within all ESF activities: how this will take place is described in detail in Chapter 8.

The Programme will make its principal contributions by:

- acting as a lever to encourage domestic resources to focus on the key development challenges outlined in the socio-economic analysis through its role as a match-funder;
- encouraging partnership working to support beneficiaries on their pathway as they move closer to labour market participation;
- supporting beneficiaries and employers at the critical period of entry into employment or education;
- progressing supported beneficiaries into more sustainable, productive employment;
- increasing the skills level of supported beneficiaries; and
- increasing access to lifelong learning among targeted groups so that they are able to take responsibility for their future progress, reducing the inequalities between the least advantaged and the rest of society .

If current trends continue, a stable or reducing working-age population sustaining a larger elderly population in the region will not be possible. Although people will live longer overall, many will do so in poor health, and in relative poverty depending on the area in which they live, and their work experience. For individuals born into poor households, the gap with the most affluent households in Scotland could widen even further in terms of health, behaviour and employment outcomes unless the Scottish Executive, UK Government, EU programmes and individual attitudes work together to alter the current trends.

Better skills help improve individual life chances, increase the flexibility of the labour force and increases the economy's competitiveness. Scotland has to embrace the knowledge economy and the reality of continual learning if it is to compete in the global marketplace. What cannot be accepted is the opportunity gap between those who achieve their full potential and those who do not; the skills gap between those in work and those who are not; and the productivity gap between Scotland and the leading economies of the world. Bridging these gaps is vital if Scottish enterprises are to grow and become more globally competitive, and if this Programme is to help the people of Scotland to help themselves in the future.

The Programme cannot support all activities that can contribute to the above vision, but will concentrate support on those areas where additionality and added value can be clearly demonstrated, in line with identified regional priorities. The strategic vision of the Programme operates through three sets of interlocking Objectives, which are described in the following section. The Chapter also contains: detailed priority descriptions, including the use of technical assistance; and the categorisation of assistance for the purpose of Lisbon 'earmarking'.

4.2 Programme Objectives

The strategic vision of the ESF Programme operates through three sets of Objectives, addressing market failures in the following areas:

1. **Progressing into Employment**
2. **Progressing through Employment**
3. **Improving access to Lifelong Learning**

Objective 1: Progressing into employment

Increasing the size of the workforce is important if Scotland is to contribute to the Lisbon Jobs and Growth Agenda. As the socio-economic background highlighted, trends in Scotland's population have emphasised the importance of ensuring that there is a large enough labour force to drive Scotland's economic growth. This not only means joining up the various supports already available for individuals who face multiple barriers to entering the workforce, but also ensuring that they gain the skills on the way to ensure that they can remain in sustainable employment in the future. At the same time, it also means that employers need to be encouraged to give equal opportunities to individuals drawn from these disadvantaged groups.

Sustainability is crucial – the aim is not only to make sure that beneficiaries are prepared to get jobs, but that they also acquire the skills and motivation to progress in long-term employment. UK policy delivered by Jobcentre Plus concentrates on those individuals who are unemployed, but close to 'job ready', or those who wish to enter or return to the job market, and can do so with some help. The UK fiscal policy works to provide a stable environment and offer incentives to individuals to ensure that they are better off working than on benefits. The Scottish strategies in this area address physical, social and economic barriers to work, as well as making the connections with global markets to allow employers to grow their enterprises and expand their workforce.

Consequently, the Objective has been set as follows:

to assist the co-ordinated progress of unemployed and inactive people of all ages towards sustainable employment.

Structural Funds Value Added

As can be seen from Chapter 3, domestic funding to support social inclusion and employability challenges is significant within Scotland. The total estimated figure of the annual funding for employability services mainly based on the 2004-05 financial year is £421 million, though this excludes welfare benefits, or housing benefits, paid to eligible people. It also excludes substantial funding for lifelong learning, as indicated under Objective 3, where it is difficult to separate out the specific activities which fully support employability, for example the work in colleges. In addition, it is not possible to quantify some other funding streams, such as that provided by the voluntary sector.

The main streams in this annual sum include:

- Jobcentre Plus, through the New Deal, Pathways to Work and other programmes and support (£169 million);
- the Scottish Executive through a large number of programmes, such as Cities Growth Fund, Homelessness, Adult Literacy and Numeracy, Working Families, Individual Learning Account Scotland, Healthy Working Lives, Lone Parent Mentoring, Full Employment Areas Initiative, Criminal Justice Social Work Services, LEAD Scotland, NEET Funding and Scottish Skills Fund (£83 million);
- the Enterprise Networks, and Careers Scotland through Get Ready for Work, Training for Work and guidance services (£51 million);
- Local Authorities, as increasingly important providers of employability services from their core funds (£20 million); and
- Communities Scotland, through the Communities Regeneration Fund (approximately £16 million).

Given the limited resources available in this Programme, it is crucial that within this Objective, funds target those groups where they will make a particularly significant difference, notably those facing multiple or acute barriers or discrimination who are not already well supported through other existing initiatives. It also needs to address the special problems associated with Scotland's high proportion of workless, who are typically concentrated in particular urban locations which tend to reinforce the factors that result in exclusion from the labour market with the inevitable economic and social consequences.

Moreover, the evidence is that more traditional 'training' activities for jobless people are well-resourced – but initial engagement and aftercare once in employment are under-resourced, particularly for those groups which are further away from entering the labour market. Consequently, more resources could be devoted to:

- initial positive activity to help workless individuals and more vulnerable groups, who often require more customised and intensive support; and
- aftercare and support for employee and employer to help sustain employment once individuals enter the labour market.

While these are often presented as labour 'supply' interventions, resources and support also needs to go to the labour 'demand' side as well, particularly to changing employer attitudes to hiring individuals in disadvantaged groups and to in-work support services.

Funding will go towards significant projects aimed at building capacity at local level to meet the challenges set out in the policies to address NEET and economic inactivity. Such projects will build capacity around those beneficiaries facing multiple barriers including those with health and mental health barriers often related to addictions, those with learning disabilities, and the over-50s. This capacity-building

approach will ensure that projects are not short-term interventions for a small number of participants, but rather that they are sustainable in the longer term.

Resources for tackling these issues are provided across the region, but the Programme can have a particularly added-value effect by targeting its limited resources on specific areas. Further, the role foreseen for the Community Planning Partnerships described in Chapter 6 shows the value of the Funds in encouraging partnership working at local level and an integrated action-plan approach to tackling social exclusion issues.

As can be seen from the list above, the key match-funders supporting activity through this Objective would come principally from the Scottish Executive (though funding provided under the Workforce Plus and NEET Strategies as well as through the City Strategies), Jobcentre Plus, Department of Work and Pensions (DWP), the Local Authorities, further/higher education, the Scottish Trades Union Congress, and the voluntary sector.

It will encourage an innovative approach to funding in this Objective through:

- making new connections with the hardest-to-reach workless groups;
- combining activity under Priority 1 with complementary activity under Priority 3 of the ERDF Programme, as described in more detail in the priority description;
- where appropriate, supporting linked bids with activity in projects to support the workless when they get jobs as part of the scope of Priority 2's activity, as described in more detail in the priority description; and
- encouraging partnership working, capacity building and integrated action plans to address the issues here, as described in more detail in section 6.1.

Objective 2: Progressing through employment

Improving the quality of the Scottish skill base can contribute directly to the productivity increases necessary to raise Scottish economic activity and employment rates and enable Scotland to be integrated into rapidly growing global markets. This objective has several dimensions. Chapter 2 analysed the trends in skill requirements against those which were available in the workforce. Higher skills levels are linked to higher employment rates across Europe. This has meant that the issue of education and levels of qualifications is an important one for Scotland. Similarly the rise in the perceived importance of soft skills means that assurance is needed that young people and other workers are being equipped with the right skills. Again, it means that the additional European funding should be concentrated where it can make a significant difference outside the mainstream education and skills funding streams.

This will mean firstly concentrating on those sections of the workforce that are most vulnerable, particularly to those at risk of losing their jobs or dropping out of employment – in other words, providing the skills necessary for *sustainable*

employment. This would include ensuring low-skilled, low-paid workers have the required skills to take advantage of opportunities for higher-quality, better-paid and more sustainable employment. It also includes special support for groups facing large scale redundancy, or whose skills need upgraded or renewed, or those who acquire a disability.

Secondly, European funding would also tackle the need to target the skills of particular groups within the labour market. The need to reduce the gender gap in participation and incomes remains an important issue for the LUPS region. Similarly, support is needed where upgrading skills or learning new skills can contribute to other economic development objectives co-ordinated with those under the ERDF programme – such as financial management and enterprise training for new entrepreneurs and managers.

Consequently, the Objective has been set as follows:

to improve the skills of the workforce to enhance employability, productivity, adaptability, inclusion and entrepreneurial expertise

Structural Funds Value Added

Skills support is already extensive in the region. It is difficult to estimate fully the scale of domestic support, but the principal provider in the region is Scottish Enterprise's annual skills-related budget of approximately £160 million, supporting workforce training, vocational skills and career guidance and information. In addition, the higher and further education institutions of the region are provided significant funding for supporting training – the Scottish Funding Council has an annual budget of approximately £1,650 million for the whole of Scotland.

In light of the significant difference in the scale of funding, EU support would have most value added targeting particular skills issues which continue to present significant challenges to the Scottish labour market. These challenges involve addressing those groups which are on the borderline between employment and non-employment and experience low pay and low skills. There is also a need to focus on groups with special issues of participation and progression in the labour market, such as women returners, those who have a health problem and those from ethnic minority communities. Lastly, there is a significant role in supporting the key challenges for enterprise development within the economy, again focusing on the distinctive challenges facing entrepreneurs and new managers of SMEs.

The key match-funders supporting activity through this Objective are likely to be Scottish Enterprise (in its skills training capacity), the higher and further education sector, the Scottish Executive (again though funding provided under the Workforce Plus and NEET Strategies), the Local Authorities, the Scottish Funding Council, the Scottish Qualifications Authority, the Scottish Trades Union Congress, and the voluntary and social enterprise sector.

It will encourage an innovative approach to funding in this Objective through:

- fully complementing the work of Priority 1 in supporting groups which have moved from inactivity into jobs by ensuring that they have a pathway open to them to develop the skill sets needed for sustainable employment – where appropriate, supporting linked bids for projects whose activity straddles both Priority 1 and 2, as described in more detail in the priority description; and
- supporting holistic and integrated approaches to increasing under-representation and more diversity in the workforce.

Objective 3: Improving access to lifelong learning

The knowledge, skills, competencies and other attributes acquired through learning, contribute to economic activity. Accumulating knowledge and skills enables individuals to improve their position in the labour market, increases productivity and earnings, and collectively enhances the society in which they live. Underpinning the efforts to increase the size and skills levels of the workforce is the lifelong learning and training environment.

This Objective recognises that support for individuals must be made in parallel with improvements to the systems that will enable them to access the training and support needed to enter, stay and progress in the labour market. That not only means enabling those within the lifelong learning and training sector to improve their ability to reach out to all groups, but also allowing them to work collaboratively with other agencies to invest in new methods, technologies and models for accessing lifelong learning. The Objective also needs to be targeted on those groups and enterprises for whom lifelong learning access is the greatest challenge. Lastly, it needs to take full account of issues of geographical access – for example, in areas of urban deprivation where there is no acknowledgement of the value of learning, or in rural areas which often lack the same level of training and lifelong learning provisions available in other areas, giving rise to opportunities for developing more innovative approaches to distance learning.

Consequently, the Objective has been set as follows:

to widen access to post-school lifelong learning, particularly for key client groups.

Structural Funds Value Added

Lifelong learning support is principally driven by the support going to the higher and further education sector. As was noted above, the funding to the Scottish Funding Council for the whole of Scotland amounts to some £1.65 billion each year. However, for this Objective, the key match-funders supporting activity would not just be the higher and further education and training sector, but the voluntary sector, the Scottish Qualifications Authority, the Scottish University for Industry, the Scottish Trades Union Congress, the Local Authorities and Scottish Enterprise as well.

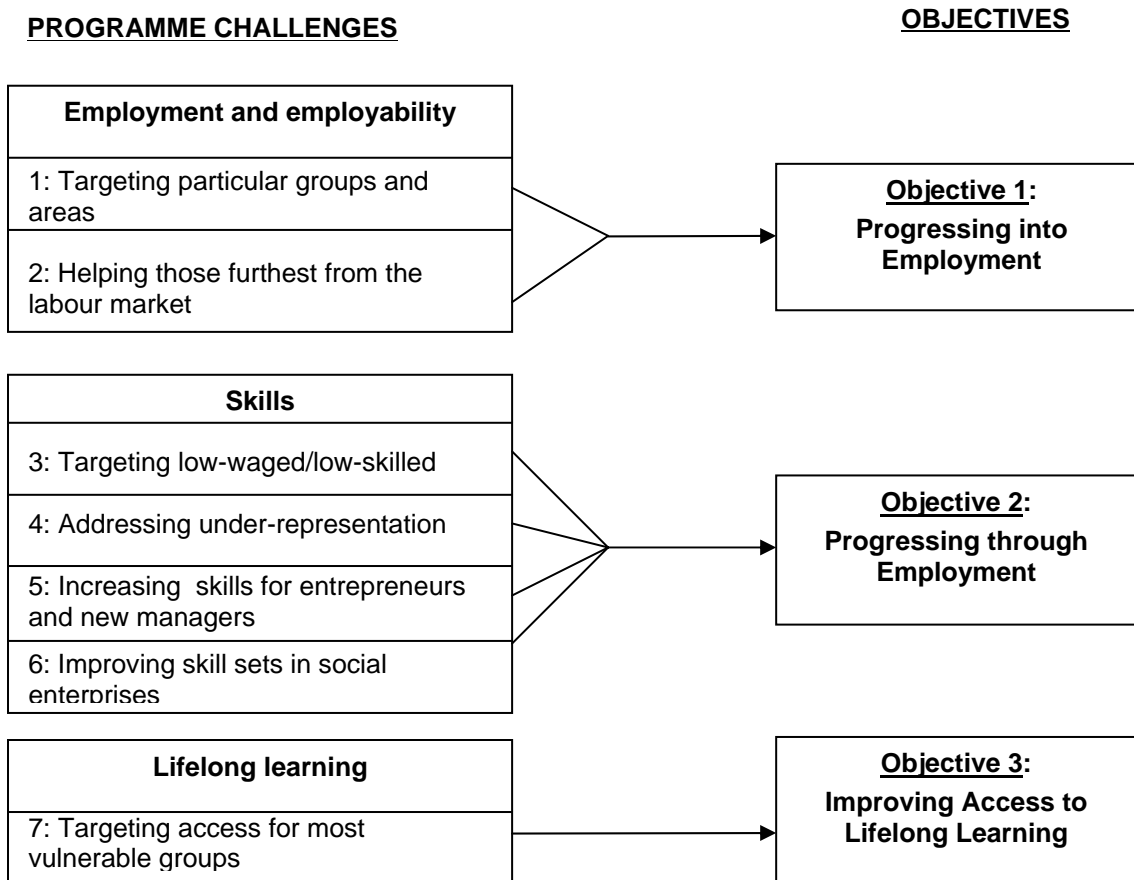
In light of the strength of domestic support, the value added of the Funds in this priority is in explicitly supporting more innovative and pilot approaches to improving access to lifelong learning, especially for the target groups lacking soft and basic skills identified in Priority 1, low paid/low skilled workers from Priority 2, and the SMEs needing to access new skills to develop their workforce and remain competitive. Not only would it encourage new projects and ideas to address the issues, but it would fund mainstreaming of pilot approaches that had worked and capacity building. It would also encourage strong partnership between different actors in lifelong learning, especially between policy-makers and delivery bodies, to ensure that the good practice and lessons arising from the approaches tested here are mainstreamed into domestic policy.

The innovative approach of this Objective should be clear from the priority description, with its focus on pilot, innovative ways of addressing access to lifelong learning. This Objective will be key to reducing the divide between those who benefit from access to services which enable them to contribute to a growing economy, and those who feel excluded and threatened by technology changes and globalisation. Access to learning and advice can enable individuals to engage, develop new skills, and make the most of their talents. By encouraging partnership working and linking pilot activity to mainstreaming within the same project, the Objective has drawn significant lessons from the EQUAL Community Initiative under the 2000-06 period, which successfully encouraged partnership-based, 'life-cycle' projects in lifelong learning, that tested new products/services/systems and fed the lessons of the piloting directly to policy-makers to shape future domestic policy.

Relationship between Programme challenges and Objectives

The Objectives have been derived from the seven key Programme challenges set out in the socio-economic analysis, as Figure 4 displays. Each Objective is addressed in the Programme by a single priority, as described in the following sections. Each of these priority sections contains: a rationale for and description of activity; targeting; eligible activity; and indicators and targets. In addition, the priorities will be informed by the three cross-cutting themes for the Programme – equal opportunities, environmental sustainability and social inclusion – as set out in Chapter 8.

Figure 4: Programme challenges and Programme Objectives



The Programme is not anticipated to make use of the global grants instrument or the possibility of ESF funding for specific support of inter-regional and transnational cooperation (beyond what is set out in Section 7.5 below).

The following sections set out the descriptions for each of the individual priorities derived from the three Programme Objectives above. Eligible activity is set out under each as well as geographical targeting for Priority 1. In addition, a common eligibility criteria will be applied across the Programme with respect to project size. A minimum project threshold of an annual average of £200,000 in total eligible project costs will be put in place. The threshold has been introduced to:

- support the development of most strategic, legacy projects for the Programme with more significant impacts;
- encourage smaller, complementary projects to come together into more strategic partnerships;
- minimise the financial and audit risk of funding small projects; and
- promote linkages between small, pilot actions and activities to mainstream and disseminate their results.

The threshold has been set to take account of the nature of the eligible activities in the Programme and the financial and audit experience of the 2000-06 Programmes.

4.3 Priority 1: Progressing into Employment

Rationale and aim

There have been real achievements over the last ten years in helping people move from welfare dependency into work. Employment rates in Scotland have risen to historic highs, as the employment base has expanded – but there are still significant challenges of economic inactivity, inequality and disadvantage in opportunities for employment. Often this is particularly acute in the most deprived areas within the Lowlands & Uplands area where the individuals marginalised from the labour market are concentrated. For some of these more disadvantaged groups, and in some areas of multiple deprivation, the gap has actually widened.

The issue of employability, or tackling inactivity, has emerged as Lowlands & Uplands Scotland's major challenge as registered unemployment has fallen. Employers are now unable to fill vacancies from education leavers or by recruiting from competitors, and this has exposed the scale and significance of those who are on inactive benefits such as Income Support and Incapacity Benefit. Many of those who are on these benefits would like to work if they were given the appropriate support to help them overcome the barriers which prevent them making the transition from inactivity to employment.

The challenge for Scotland in becoming more competitive is to help more of these people take the opportunities available in a stable or growing economy for sustained and well paid work, particularly those who have not traditionally been able to sustain participation in the labour market. For most families, work is the best way out of poverty: it increases independence from state benefits, encourages self-reliance and builds confidence. That is why the first of the Closing the Opportunity Gap strategy's objectives is to increase the chances of sustained employment for vulnerable and disadvantaged groups. Smart Successful Scotland also makes clear that tackling poverty, disadvantage and economic growth go hand in hand.

Each workless individual faces a unique combination of barriers determined by their own personal experience, characteristics and circumstances, that prevents them from entering and sustaining employment. The support that workless individuals receive on their transition to work must therefore be flexible enough to recognise and adapt to the different stages on their journey and the barriers that face them at any particular point. It must also be tailored to local circumstances and simply accessed in a supportive local environment, even though it will inevitably be delivered by a number of organisations. As the MORI 2005 beneficiaries study noted, this support must be long term – from early engagement to progression in work – and must provide a joined-up package of care to ensure that the appropriate local agencies work together.

The pathway into work can be a long one involving uncertainties and setbacks for the individual who has to overcome barriers and build trust, confidence and self-esteem along the way. The successful route will have to be individually tailored and include a number of very different stepping stones from initial commitment to some positive activity, through the various stages of work preparation, to a move into supported employment, and eventually to progress beyond an entry level job into sustained progression in employment.

Early engagement with a client-centred, locally-customised approach which meets the needs of the workless individual has been clearly demonstrated through some of the EQUAL Community Initiative partnerships as being effective in helping overcome multiple and complex barriers. It is also an area which receives a relatively low level of funding as little immediate return can be seen in terms of individuals getting into employment or education. Specialist support services need to be available locally, and over a lengthy period to sustain the momentum and motivation of those with the greatest 'distance to travel' to gain and remain in employment.

Equally important is having in-work support available for those who need it, as this would considerably increase the chances of an individual making a successful transition from inactivity to sustained employment. Without more focus on the sustainability, and also retention of a job, the cost and effort of getting an individual into a job is wasted if they leave within weeks of obtaining work. The important aspect of this in-work support is again that it must reflect the local conditions, in terms of the client groups who require support and the needs of employers in the area.

Support is also necessary to address employer perceptions of particular client groups, recognising that the challenges facing certain individuals are not entirely supply-side based. However, labour demand activities will principally be covered in the parallel ERDF Programme for the region, whose focus will be on creating jobs rather than ensuring the labour market can provide the required workers and skills. Co-ordinating the two programmes will be essential to ensure that labour demand and supply actions are integrated – this is discussed in more detail in Chapter 6.

Consequently, the overall aim of the priority is to achieve the first Objective:

to assist the co-ordinated progress of unemployed and inactive people of all ages towards sustainable employment.

Targeting

The challenges discussed above are most acutely felt among particular groups and in particular parts of the LUPS region.

Although the region now has a relatively high employment rate, rates for some groups of individuals are significantly less than the rate for Scotland as a whole. These specific groups of individuals experience multiple barriers to entering employment and retaining jobs, causing high levels of unemployment and economic inactivity in particular areas relative to the rest of the population. Low skills, poor or

no qualifications, lack of self-confidence and work experience, are some of the main personal barriers common to many of the workless clients. They also often face barriers of employer perceptions and discrimination. As the socio-economic analysis highlighted, the specific target groups could vary considerably depending on particular concentrations of deprivation and the particular challenges facing the local area. Priority will be given to the hardest-to-reach, workless groups, those experiencing multiple challenges and those in the NEET group, but target groups include the following.

- Long-term unemployed/inactive people, particularly those with no or low qualifications and multiple barriers to entering employment or self-employment, and remaining in a job
- 16-19 year olds not in education, employment or training, particularly: young people leaving care; carers; young offenders; young people with physical and/or mental health problems and young people abusing drugs or alcohol
- Young people identified as being at risk of not entering education, employment or training on leaving school, particularly low attainers and persistent truants
- Unemployed/inactive lone parents and other carers
- Unemployed/inactive people with mental health problems, long-term illness, disabilities or learning difficulties
- Older people seeking to re-enter the labour force or requiring re-skilling to enable them to remain in the workforce
- Other disadvantaged unemployed/inactive groups such as prisoners prior to release, ex-offenders, people with drug or alcohol problems, homeless people and refugees
- Unemployed/inactive people from ethnic minority groups
- Individuals experiencing persistent part-time/seasonal employment
- Employers who recruit from the above groups and who need support in retaining and developing these employees

At the same time, within the LUPS region, there are particular areas where these problems are most acute. As the socio-economic analysis showed, the groups identified above are most concentrated in certain urban areas. Such communities which are particularly excluded from the benefits of economic growth and efforts to bring about lasting regeneration are also a high priority for Scottish Ministers. Failure to tackle the problems associated with exclusion is not only contrary to a commitment to social justice but also represents a failure to make best use of all of the economic resources at our disposal in order to drive growth.

By concentrating actions in this priority on particular urban areas, the best use is being made of the limited funding available to make the greatest impacts on exclusion and poverty and help provide additional fuel for a drive to contribute to the Lisbon Agenda. Although the targeted areas are likely to change through the programming period, the principles for their selection should remain constant.

Support will be limited to those Local Authority areas that are:

- areas prioritised in key Scottish strategies, specifically Workforce Plus, the NEET strategy and the Regeneration Policy Statement; and
- in addition, to reflect any changes in relative deprivation within the period covered by these strategies, other Local Authority areas with the ten highest shares of their population in the 15% most deprived data-zones, as measured by the Scottish Index of Multiple Deprivation, will be considered eligible.

At present, these areas would account for approximately 60% of the region's population, but it is anticipated that the list of eligible areas will change through the Programme, reflecting changes in the indicators on which they are based. Consequently, the areas will be identified by the Managing Authority in advance of each project selection round using the methodology above.

Projects will be supported which address the challenge of these areas, although activity can be located elsewhere in the Local Authority area. Moreover, where projects covered beneficiary groups that overlap with similarly deprived data-zones in bordering Local Authorities, up to 10% of the project award could be in the neighbouring data-zones.

Individual projects will be eligible for support through the priority. In addition, a share of funding will be set aside to support projects that are part of integrated packages of support put forward by Community Planning Partnerships. This may include a range of small projects, linked together into a common aim of improving the sustainability of communities within the list of eligible areas. The approach is described in more detail in section 6.1 with respect to bringing together ERDF and ESF funding to support integrated action plans. The 10% geographical flexibility described above would not apply to the funding for Community Planning Partnerships.

Eligible activities

€121.195 million of EU funding has been allocated to the priority, or 45% of the Programme, to support the following activities:

- Early engagement, identification of needs with action plans setting out customised support, particularly for the hardest-to-reach groups
- Work preparation to build confidence and develop basic, life and coping skills, including ICT, literacy, numeracy and English for speakers of other languages
- Vocational training, developing care skills, supported volunteering, job search advice, job tasters and work experience, again for the hardest-to-reach groups
- Initiatives to help raise awareness of the world of work, enterprise and entrepreneurship among young people, including work experience placements, particularly among the NEET group
- Initiatives to encourage employers to understand the needs of vulnerable groups in entering and remaining in the workforce
- Intermediate labour market activity

- Innovative approaches to job brokerage/matching
- Assistance with childcare and care for dependent persons, where caring responsibilities are a barrier to progressing into the labour market
- Developing support for employees and employers to help employee retention and progress in the early months of employment, included supported and subsidised employment

Preference will also be given to projects which can demonstrate an innovative approach to the activity or represent the mainstreaming or rolling-out of a pilot approach which has tested successfully.

The distinction between beneficiaries in different priorities is not always clearcut. This is true of ESF Priority 2. Some of the most successful projects recognise that there is a continuum of support for workless individuals going into sustainable employment, often requiring aftercare to avoid the 'revolving door' of individuals going in and out of employment. Under ESF Priority 3, support for the development of new lifelong learning approaches may also entail support for training workless beneficiaries. It is also true of ERDF Priority 3 (Urban Regeneration), which covers complementary area-based regeneration activity in the same eligible areas. Consequently, Priority 1 project bids will be able to put in parallel applications under these different priorities and decisions on the bids will be co-ordinated.

This is in addition to the flexibility facility, which can allow up to 10% of the funding in this priority to be used for related ERDF-type activity. The flexibility could be applied in cases where the supported activity would not warrant a full-scale application to the ERDF Programme as the support to be provided would be limited.

Indicators and targets

The indicators reflect the priority's targeting of key groups experiencing acute problems of worklessness, including those with multiple deprivations (which will be set out as part of guidance to applicants). Targets have been set with reference to previous programme experience and the MORI Beneficiaries Survey, as discussed in Chapter 3. The data on these indicators will be collected from individual participant data on a quarterly basis, as described in more detail in Chapter 9. For all these indicators, data will be collected on key beneficiary characteristics, such as gender, in line with Annex XXIII of the Implementing Regulation.

In addition, there are a number of indicators which will be measured through specially-commissioned data-gathering exercises. The 'sustainability' of employment will be measured through follow-up surveys on the number of participants who remain in work six months after leaving – data on these beneficiaries surveys will be collected in 2011 and 2013. While the main results are those entering employment or gaining a partial/full qualification and those entering into education or training, the impact indicators reflect that not all participants will gain sustainable employment. In particular, as part of the evaluation work of the new Programme, a 'soft' indicator will be measured to reflect the progress of individuals towards employment (a measure

of ‘distance travelled’ by individuals who are furthest from sustainable employment) as well as the net effect of those entering employment. Data on these will be gathered through a specifically-commissioned evaluation to be conducted in the latter half of the programming period.

Baselines for the priority are set in Chapter 9, which also discusses in more detail how the data will be used for evaluation and reporting purposes.

Indicator	Type	Target
Number of participants receiving support	Output	17,600
Number of participants with multiple deprivations	Output	6,600
Number of participants in the NEET group	Output	3,400
Number of participants in ethnic minority groups	Output	800
Number of participants who are aged 50 or over	Output	2,100
Number of participants entering into employment	Result	5,800
Number of participants entering education or training	Result	5,800
Number of participants completing a partial or full qualification	Result	8,800
Number of participants in work six months after leaving	Result	
Number of participants who progress towards employment	Impact	
Net number of participants entering employment	Impact	

4.4 Priority 2: Progressing through Employment

Rationale and aim

The level of investment in training varies considerably in the region. Training is not always sufficiently well aligned with business objectives to generate real benefits. One measure of the need to improve the skills of the workforce is the concept of ‘skills gaps’ when a current employee is judged not to be fully proficient at his or her job. Results from Futureskills Scotland’s employer survey revealed employer perceptions of significant areas in which staff are viewed as inadequately skilled. In particular, over 50% of staff identified as having skills gaps are considered less than fully proficient in planning and organisation, customer handling, problem solving and team working. Written communication is deficient in almost 35%, and numeracy and literacy, although among the least common skills deficiencies, are both still identified as a problem amongst almost one in five employees with skills gaps.

Consequently, investing in the skills of the workforce has several benefits for the region, all of which can contribute to addressing Scotland’s relatively poor productivity performance. First, such investment complements the efforts to

encourage workless individuals into the labour market by providing those who have low skills with the additional training they require to achieve sustainable employment and move into better-paid employment. Second, it can encourage fuller representation in the workforce, particularly from a gender, age and ethnic minority perspective and for senior posts such as enterprise managers. Lastly, there is a need to improve a range of enterprise skills within the region, particularly for entrepreneurs and new managers of small companies, to enable them to adapt better to globalisation and the knowledge economy.

There is evidence from a range of sources of the effectiveness of promoting work-based learning, particularly to deliver core skills to employees within SMEs. It is important for skills improvement and progression through employment to be encouraged by increasing employer awareness of the benefits. Employers are not sufficiently aware of the benefits of work-based learning for all groups of staff, even those undertaking basic level jobs. This can be tackled by reducing the direct cost of training or the productive time lost. There is the danger that employers will focus on training that will offer them a financial incentive, therefore skewing the process of skills development. So, early work with employers to help them identify their own enterprise and training needs before choosing from a selection of training products, combined with longer monitoring of results, should ensure the broader quality and qualification training focus is retained.

It is also possible to intervene more effectively by developing a more co-ordinated approach to the delivery of training services. This can be done by partnerships identifying and prioritising the sectors and skills needs where intervention can make the most difference in their area. This will require more effective working together for enterprise agencies, local authorities, and employers who can then make their enterprises grow and become more competitive, and trade unions and employees who can become more committed to improving their skills and using these skills productively. The system to provide these skills will have to be flexible, nurturing, and innovative to facilitate progression and to be responsive both to the short-term demands of employers and the long-term needs of the economy. As employers become more engaged in the education and training system which delivers on their needs, those who need to will continue to invest in training and thereby increase the productive use of their workforce's skills.

The second priority addresses the skills of those in the workforce by aiming to achieve the second Objective:

to improve the skills of the workforce to enhance employability, productivity, adaptability, inclusion and entrepreneurial expertise.

In light of the limited resources, the priority will focus on four key goals, which are elaborated further in the sub-sections below:

- improving the ability of key groups to progress from low skill/low paid jobs into sustainable employment offering financial security;
- increasing participation in occupations traditionally under-represented from an equal opportunities, diversity perspective;

- underpinning support for entrepreneurship and the managerial skills training required to make a success of new enterprise formation and growth; and
- providing the social enterprise and voluntary sector with the required skills to make their organisations sustainable.

Reinforcing Sustainable Employment

The link between limited qualifications and lack of career progression or improved wages is discussed in the analysis in Chapter 2. It is estimated that 23% of adults in Scotland have low levels of literacy and numeracy skills and 22% of all workers are in low paid employment. Motivated, high-quality and appropriately-skilled people are a fundamental requirement in delivering innovation, increased productivity and growth. Scotland's record in getting people into apprenticeships, college and university is amongst the best in the world but there is still a challenge in getting people to continue developing their skills and improving their productivity once in work. The challenge is particularly difficult for the more vulnerable groups identified in Priority 1. Supporting vulnerable or highly-disadvantaged individuals in obtaining sustained employment needs to be part of a continuing, co-ordinated range of support for ensuring that they not only remain in jobs but progress through the labour market.

Addressing Under-Representation in the Workforce

As the socio-economic analysis indicated, the LUPS region continues to have significant under-representation in occupational and sectoral participation and a pay gap from both a gender and an ethnic perspective. The Programme should contribute to addressing the problems by supporting participation by women and ethnic minority groups in the workforce, particularly in activities that encourage returners, allow skills upgrading or conversion, and assist in retaining in – and progressing through – work those requiring special assistance to balance caring responsibilities. It should also support initiatives to address employer attitudes to training these groups and other workplace barriers that may continue to exist. The issue of representation also relates to male participation in sectors traditionally dominated by women, such as caring professions. At the same time, there is scope for ensuring the retention and up-skilling of older workers in the workforce and encouraging the integration and progression of migrant workers in the labour market, all of which will contribute to increasing the size of the workforce and improving productivity.

Improving Entrepreneurial and Managerial Skills

Given the vision that Scotland must become a high earning, high skills-based economy to improve its competitive future, this second priority also addresses the workforce skills issues around giving high quality financial, marketing and e-skills to entrepreneurs and new managers in new and existing SMEs, partly complementary to the ERDF priority to commercialise research in Scottish higher and further education, and encourage spin-out of new and growing companies. The objectives of the priority therefore include fostering entrepreneurial skills of entrepreneurs and

new managers across the region, the development of leadership skills in enterprise (specifically, for those under-represented among new managers, such as women and ethnic minorities) and addressing lack of ICT and e-commerce skills and business and financial planning. This partly reflects the need to improve skills development among potential and new SME managers, and the need for measures to encourage entrepreneurs to grow and globalise their companies.

Increasing Social Enterprise Skills

Training needs vary significantly among different organisations. In the case of the social economy and voluntary sector – which will carry out some of the activity supported under Priority 1 – these needs have been recognised as a training priority by the Scottish Executive. To enable these organisations to continue their critical work in engaging with the most vulnerable groups outside the labour market, it is important that they are helped in developing a longer-term capacity for sustainable development. Consequently, support is needed to tackle the specific needs of social enterprises in gaining the commercial and entrepreneurial skills required for future survival. The pump-priming and demonstration projects which ESF funding can support will enable these and other social enterprises to understand better their needs and how to address them to become more self-sustaining while offering worthwhile employment to their workforce.

Targeting

To raise the skills of the workforce and Scotland's global competitiveness there needs to be substantial investment in the training of employees. The key groups that this priority is seeking to assist therefore include the following.

- Employees who lack basic core skills, including those having low levels of literacy or numeracy, and those for whom English is not their first language
- Employees without qualifications at SCQF level 5 and 6 (SVQ level 2 or level 3)
- Specific groups, such as women returners, ethnic minority and migrant workers, and workers with disabilities
- Older workers who need to update their skills to remain or return to the workforce
- Potential and new entrepreneurs and new managers of (both new and existing) SMEs
- Key staff in social enterprises

Eligible activities

Four groups of activities are envisaged in this priority: support for the low-paid/low-skilled; improving under-representation in the workforce by women, particularly for higher-skilled jobs; addressing the managerial and entrepreneurial skills gap in the region; and supporting skills upgrading in social enterprises. Consequently, €99.601 million of EU funding has been allocated to the priority, or 37% of the Programme, to

support eligible activities such as:

Reinforcing sustainable employment

- Initiatives to encourage the development of vocational skills among low-skilled and low-waged individuals
- Activities enabling disadvantaged young people and adults to enter apprenticeships, particularly those from groups not traditionally taking up this form of training
- Training/education in basic literacy, numeracy, basic ICT skills and English for speakers of other languages including migrant workers
- Activities to support the progression in employment of disadvantaged young people and adults with low level skills from foundation level up to SVQ level 3
- Training for workers leading to SVQ level 2 and 3 qualifications – ESF funding will support activities additional to those funded domestically under the SVQ level 2 entitlement

Addressing under-representation in the workforce

- Training, mentoring and supporting men and women who want to enter occupations or sectors where their gender is under-represented, in order to tackle gender segregation and the pay gap

Improving entrepreneurial and managerial skills

- Training to provide entrepreneurial, business planning, financial, marketing, and e-skills for those in self-employment and new managers in new and existing SMEs
- Initiatives to provide training for those wishing to start up or manage a business, particularly from groups under-represented at managerial levels such as women or individuals from ethnic minority backgrounds

Increasing social enterprise skills

- Business skills required by workers in social enterprises to improve the sustainability of their organisations

As with Priority 1, preference will be given to projects which can demonstrate an innovative approach to the activity or represent the mainstreaming or rolling-out of a pilot approach which has tested successfully. Also project bids for support under ESF Priorities 1 and 3 will be co-ordinated. This is in addition to the flexibility facility, which can allow up to 10% of the funding in this priority to be used for related ERDF-type activity. The flexibility could be applied in cases where the supported activity would not warrant a full-scale application to the ERDF Programme as the support to be provided would be limited,

Indicators and targets

Indicator	Type	Target
Number of participants receiving support	Output	64,600
Number of participants gaining partial or full qualification	Output	42,600
<i><u>Reinforcing sustainable employment</u></i>		
Number of male participants without level 2 or below skills	Output	7,800
Number of female participants without level 2 or below skills	Output	7,800
Number of male participants without level 3 skills	Output	6,300
Number of female participants without level 3 skills	Output	6,300
Number of male participants gaining level 2 skills	Result	3,200
Number of female participants gaining level 2 skills	Result	3,200
Number of male participants gaining level 3 or above skills	Result	2,600
Number of female participants gaining level 3 or above skills	Result	2,600
Number of participants who progress into more secure or better-skilled employment	Impact	
<i><u>Addressing under-representation in the workforce</u></i>		
Number of women (in projects addressing better gender balance)	Output	9,400
Number of men (in projects addressing better gender balance)	Output	4,700
Number of women going into gender-imbalanced sectors	Result	6,200
Number of men going into gender-imbalanced sectors	Result	3,100
<i><u>Improving entrepreneurial and managerial skills</u></i>		
Number of participants (in projects addressing entrepreneurial and managerial skills)	Output	7,500
Number of entrepreneurs and new managers completing a partial or full qualification	Result	4,900
Number of companies benefiting from improved skills training	Impact	
<i><u>Increasing social enterprise skills</u></i>		
Number of participants from social enterprises	Output	5,200
Number of participants from social enterprises completing a partial or full qualification	Result	3,400
Number of social enterprises benefiting from improved skills training	Impact	

A single output indicator has been set for the priority as a whole – the number of participants and those gaining partial or full qualifications. However, the output and results indicators also reflect the individual sub-activities in the priority:

- targeting the low-skilled and low-paid and reinforcing sustainable employment (participants trained to level 2 or 3 skills levels);
- encouraging participation in gender-imbalanced sectors (participants in projects targeting gender balance);
- promoting entrepreneurial skills (participants in projects gaining partial/full qualifications); and
- support for social enterprise skills sets (participants from social enterprises gaining partial/full qualifications).

Targets have been set with reference to previous programme experience. The data on these indicators will be collected from individual participant data on a quarterly basis, as described in more detail in Chapter 9. Guidance will be provided to define 'gender balance' and 'entrepreneurial and managerial skills' projects and tagging such projects will be the responsibility of the Managing Authority.

Impact indicators differ for the different sub-activities:

- low-skilled and low-paid participants moving onto more secure or better-paid employment, to be defined in discussion with the impact evaluators;
- positive benefits to companies resulting from the entrepreneurial/managerial training, as measured by directly-attributable turnover or productivity changes; and
- positive benefits to social enterprises resulting from the training, as measured by directly-attributable changes to the longer-term security/sustainability of the enterprises.

An impact indicator has not been set for gender imbalance, as the long-term effect of the Programme on the gender imbalance of different sectors will be difficult to measure within the timescales of the programming period. For all impact indicators, data will be gathered through a specifically-commissioned evaluation to be conducted in the latter half of the programming period.

Baselines for the priority are set in Chapter 9, which also discusses in more detail how the data will be used for evaluation and reporting purposes.

4.5 Priority 3: Improving Access to Lifelong Learning

Rationale and aim

Underpinning the ability to improve the job market opportunities of particular groups outside of the workforce under Priority 1 and to allow individuals to progress to higher-quality, more sustainable employment under Priority 2, is the quality and accessibility of the post-school learning infrastructure. Investment in knowledge and

skills brings direct economic returns to individuals and collective economic returns to society. Investment in quality-assured learning offers benefits not only to the individual, but also to the programme's central goal of contributing to the competitiveness of the economy, while closing the opportunity gap and reducing inequalities in the wider society. As economies which compete in the global marketplace have to ensure their workforce continually updates its skills and learning, an important element to Scotland's achievement of Lisbon Agenda goals is upgrading this infrastructure and widening and deepening access. Investment in knowledge and skills brings direct economic returns to individuals and collective economic returns to society, and provides the potential for social gains through increased participation, improved health outcomes and greater social cohesion.

Lifelong learning is delivered in Scotland through a number of different bodies. Learndirect Scotland and Careers Scotland have central roles in providing information, advice and guidance to learners and enterprises, while Futureskills Scotland analyses and provides the labour market intelligence that has shaped policy in this area. In addition, a wide range of professional organisations deliver learning activities to different groups, including the HE and FE sector, while the Scottish Trades Union Congress has a valuable role to play in bringing learning into the workplace, just as voluntary organisations have in bringing learning into communities through community learning and development programmes. EU funding can bring real value added by enabling these organisations to widen this access develop and mainstream new approaches to delivering lifelong learning to those who have not benefited so far.

This priority has to be focused on delivering what the people who have to be drawn into learning and training need, where and when they can most easily access it. To do this, learning providers must work out new ways to design, deliver and evaluate learning which meets the needs of these people who have so far felt excluded, alienated or threatened by learning. Outreach to engage individuals who have no or poor experience of learning will be an essential feature. Projects will have to ensure that all learners are given the information, guidance and support they need not just at the point of initial engagement, but also at transition points to make an informed decision about their next move; and to ensure that the right kind of assistance is available to support their continued learning.

This priority will therefore be one where flexibility and innovation are key. For those who have not engaged with learning for a long period, or who feel themselves excluded from learning, attracting them back will be a gradual process which may be through informal learning in a community or work setting, or through outreach centres which they attend for social reasons.

The encouragement of the reform of current methods of entry into particular training courses or recruitment onto apprenticeships can also be assisted. The aim would be to ensure that a more diverse group of people are able to take advantage of early opportunities to progress and gain recognised sectoral and professional qualifications. Installing new networks, systems and support in work places, and links between groups of employers or employees to enable a wider spectrum of people to

access learning opportunities from their workplace would also be encouraged through this priority. In some cases, partnership working will be essential to ensure that access to lifelong learning for more disadvantaged groups can not just be offered, but also fully supported until the individuals are comfortable within the more established learning services.

Consequently, to support the activity of improving lifelong learning access, this priority aims to implement the third Objective:

to widen access to post-school lifelong learning, particularly for key client groups.

Targeting

Target groups are different for this priority from the eventual beneficiaries. It aims to assist the design and introduction of innovative products to reform education and training systems or provide access to existing provision of learning products, as well as funding the piloting/dissemination of these new products/systems. Consequently, ESF funds will be available from this priority for those offering new, innovative ways of attracting into learning people who have been disillusioned by early educational experience or who have been unable to access the opportunities to fulfil their learning aspirations because of a variety of barriers to be overcome, social, cultural, caring or financial.

There is no spatial targeting in this Priority. However, issues of access differ in different parts of the region – in particular, areas of urban deprivation may lack services or security for individuals wishing to access learning and training, just as rural areas may experience problems with geographical distance and access to provision. Support will be available for projects that recognise the area-based lifelong learning challenges of different parts of the region.

Individuals, employers and those providing learning opportunities are all critically important in relation to the employability and lifelong learning agendas. Individuals and employers create the demand for skills, which are then facilitated and/or delivered by a range of private, public and third sector organisations within the learning market. Equally, workers in small businesses may find it impractical to get training provided at their workplace during the working day, while low paid workers in larger organisations may simply find employers unwilling to invest in portable qualifications in case this risks higher staff turnover. Consequently, activities will be supported for the following groups.

- Personnel in public and private training/education bodies providing access to lifelong learning and support services to key client groups
- Voluntary sector/social economy organisations
- Agencies working with employers, particularly SMEs, including learndirect Scotland/Scottish University for Industry
- The Scottish Qualifications Authority, schools, HE institutions, FE institutions and the Scottish Funding Council

- Community learning and development centres and local and community organisations
- Professional bodies
- Employers, their representative bodies, the Scottish Trades Union Congress, trade unions, and workers organisations

Eligible activities

€42.648 million of EU funding has been allocated to the priority, or 16% of the Programme to support eligible activities including:

- Projects that develop and mainstream successfully tested innovative approaches to learning, particularly for the target groups listed under Priority 1
- Development of new training materials or course content to accommodate different cultural and skills backgrounds
- Creation and distribution of new online learning materials
- Projects that develop distance learning and make innovative use of ICT in training
- Skills training for personnel requiring specialist skills to address the employability needs of target groups listed under Priority 1
- Initiatives that support local learning access points
- Innovative workplace initiatives, particularly those linking learning and training for groups of companies or employees which would otherwise not participate in training activities

Project bids for which some activity would be eligible under ESF Priorities 1,2 and 3 will be co-ordinated. For the rural areas eligible under ERDF Priority 4, where the provision of higher and further education services is an eligible activity, projects bringing together activities to enable access to these services to more disadvantaged groups would be encouraged. This is in addition to the flexibility facility, which can allow up to 10% of the funding in this priority to be used for related ERDF-type activity. The flexibility could be applied in cases where the supported activity would not warrant a full-scale application to the ERDF Programme as the support to be provided would be limited.

Indicators and targets

The output indicators for the priority reflect the number of participants supported through projects, but more importantly, the number of materials (by type rather than volume) and courses introduced, both those which are wholly new or those which have been adapted. In addition, to measure the priority's impact, the number of trainers trained will be measured as an indication of the priority's goal of improving lifelong learning capacity in the region.

Targets have been set with reference to previous programme experience. The data on these indicators will be collected from individual participant data on a quarterly basis, as described in more detail in Chapter 9. Clear and specific guidance will be provided by the Managing Authority to define what is meant by new 'courses' and 'materials', but the focus will not be on the volume of such activities, but the number of new types of these activities. Such definitions have been a significant issue in the efforts of previous programmes to measure lifelong learning activity.

The key impact indicator for the priority will be the effect of the supported projects on longer-term changes in the number of participants with access to lifelong learning, as measured by participation in training. This data will be gathered through a specifically-commissioned evaluation to be conducted in the latter half of the programming period.

Baselines for the priority are set in Chapter 9, which also discusses in more detail how the data will be used for evaluation and reporting purposes.

Indicator	Type	Target
Number of participants receiving support	Output	7,900
Number of projects supporting the development of new courses/materials or innovative approaches to learning	Output	100
Number of new courses/materials developed	Result	1,900
Number of trainers trained	Result	1,600
Number of participants completing a partial or full qualification as a result of supported projects	Impact	

4.6 Technical Assistance

Technical assistance support will be provided to assist the management and administration of the programme. This will include activities in support of the various selection, appraisal, management and committee groups, the monitoring of financial and performance progress, Programme publicity and communication, and facilitating the exchange of best practice. Technical assistance will be used to support the work of the Intermediate Administration Body, which is described in Chapter 7.

Eligible activities

€6.478 million of EU funding has been allocated for technical assistance, or 2% of the Programme to support eligible activities including:

- Servicing Programme groups and committees
- Communicating decisions and policy to partners
- Implementation of a common monitoring and evaluation framework and provision of regular monitoring reports

- Provision of advice to applicants
- Compliance work required under the implementing regulations and national rules for the programme, including on the spot visits, claims processing, and subsequent follow up of eligibility and compliance issues with beneficiaries
- Publicity including awareness-raising of the Programme among all beneficiaries and applicants in line with the activities set out in the publicity section in Chapter 7
- Annual reporting on the Programme
- Development of ICT systems to assist the application, monitoring and financial control of the Programme
- Evaluation studies in line with the strategy set out in Chapter 9

4.7 Categories of Assistance

As set out in Article 9 of the General Regulation, Programmes under the Competitiveness Objective must meet a target of 75% for expenditure on activities contributing directly to the objectives of the Integrated Guidelines for Growth and Jobs (2005-08). The relevant categories of assistance are listed in Annex IV of the General Regulation.

While this target will be met, the ESF Programme for Lowlands & Uplands Scotland has set itself an ambition of achieving 97% of expenditure.

5 FINANCIAL ALLOCATIONS

The financial allocations for each year of the programme are shown in the table below. €269.921 million of Community funding will contribute to a Programme of €598.626 million in total, resulting in a target Programme intervention rate of 45% (as calculated with respect to total public expenditure).

Table 3: Year by source of funding for the Programme (in €)

Year	Community Funding (a)	National Public Funding (b)	Total Funding (c) = (a) + (b)	Co-financing Rate (e) = (a)/(c)
2007	36,307,594	44,182,308	80,489,902	45%
2008	37,033,746	45,065,954	82,099,700	45%
2009	37,774,421	45,967,273	83,741,694	45%
2010	38,529,909	46,886,618	85,416,527	45%
2011	39,300,507	47,824,350	87,124,857	45%
2012	40,086,517	48,780,837	88,867,354	45%
2013	40,888,248	49,756,455	90,644,703	45%
2007-13 total	269,920,942	328,463,795	598,384,737	45%

For the three key priorities of the Programme, resources have distributed with the following rationale.

- Priority 1 has received the highest share of funding, reflecting the priority placed on the challenge of worklessness in domestic policy. With an economy that has already achieved the Lisbon employment rate targets, the key issue for the Programme is to reduce persistent worklessness, especially in parts of the region where it is particularly entrenched.
- Priority 2 also has a high share of funding because it covers a range of important, inter-related factors influencing skills development in the region.
- Priority 3 has the smallest share of funding in recognition of the smaller-scale, pilot nature of the activity and its aim of leveraging in partnership funding from a range of domestic partners.

Table 4: Priorities by source of funding (in €)

	Community Funding (a)	National Public Funding (b)	Total Funding (c) = (a) + (b)	Co-financing Rate (d) = (a)/(c)	EIB Contributions	Other Funding
Priority Axis 1	121,194,503	148,126,615	269,321,118	45%	0	0
Priority Axis 2	99,600,827	121,734,344	221,335,171	45%	0	0
Priority Axis 3	42,647,509	52,124,733	94,772,242	45%	0	0
Priority Axis 4	6,478,103	6,478,103	12,956,206	50%	0	0
Total	269,920,942	328,463,795	598,384,737	45%	0	0

The intervention rates have been set to reflect previous ESF experience and to ensure that the minimum required EU funding would be provided to match-fund projects.

6 CO-ORDINATION WITH OTHER FUNDS

Co-ordination of the Structural Funds with other relevant funding streams is a regulatory requirement, but it is given greater importance in the 2007-13 programming period. Compared to previous funding rounds, the scale of funding in the eligible LUPS area is significantly reduced, making it more critical that the value of the 2007-13 Structural Funds are enhanced by ensuring they work closely with other sources of funding. Similarly, the scope of eligibility in the 2007-13 programming round is more targeted than in earlier rounds, giving greater opportunities for Structural Funds to work in combination with other, similarly targeted policies.

In this context, there are several relevant funding streams. This chapter discusses how the ESF Programme will work closely with:

- the European Regional Development Fund;
- the European Territorial Co-operation Objective;
- EU support for agriculture and fisheries;
- EU research funding; and
- European Investment Bank support.

6.1 European Regional Development Fund

As the other major funding stream within EU cohesion policy, it is essential that ESF works closely with the European Regional Development Fund, while recognising the distinctive objectives of the two Funds. In parallel with this ESF programme, there will be a European Regional Development Fund programme for the Regional Competitiveness and Employment Objective of the Structural Funds, covering the same eligible area. This is an important change from the 2000-06 programming period, where ESF (through Objective 3) was not only available in much wider territorial area than ERDF funding (through Objective 2), but it was available in two programmes (not only the Objective 3 programme, but also in the Western Scotland Objective 2 programme). The geographical contiguity between both the ESF and ERDF programmes and their mono-fund nature should enable strong co-ordination between the two funding streams to take place.

The experience of the 2000-06 programming period in co-ordinating ESF and ERDF funding (as discussed in Section 3.2 above) has fed into developing the approach for the 2007-13 programming period. As the mid-term evaluations of the 2000-06 programmes attested, ESF and ERDF co-ordination was broadly successful but there have been lessons to be learnt. Foremost among these has been the need to build in greater complementarity at the start of the programme, not least with respect to setting up formal mechanisms to ensure that not only co-ordination takes places systematically, but that it is monitored and assessed on a regular basis.

The main co-ordination mechanism will be through a single Programme Monitoring Committee overseeing both the ESF and the ERDF programmes for the whole LUPS

area. The arrangements for the Programme Monitoring Committee (PMC) are discussed in detail in Chapter 7.

On an annual basis, the use of the funding flexibility allowed by the General Regulation will be reviewed. Under the Article, up to 10% of total ESF Programme resources can be spent on ERDF-related activities. This will enable projects to avoid unnecessary applications on projects where such activities are likely to be a small proportion of total project funding. At the start of the programming period, the Managing Authority will set out detailed guidelines on the types of activities that could be covered by the flexibility rule. The Managing Authority will monitor spending on 'ERDF' activities and provide the information as part of the annual report on ESF-ERDF co-ordination.

One of the ESF Programme priorities will be delivered jointly with one of the priorities in the ERDF programme for the LUPS region. Joint awards of funding under Priority 1 of the ESF Programme and Priority 3 (Urban Regeneration) of the ERDF Programme will be made to bidding projects. Priority 1 of the ESF Programme concentrates on supporting those outside the workforce to secure employment, particularly among the most disadvantaged groups, and has a clear strategic fit with the community economic development focus of Priority 3 in the ERDF Programme. Projects will not be required, but will be encouraged to put forward action plans that will show how ERDF and ESF funding can be used in tandem within the same project, although projects will not be required to apply for both Funds. While applications need to be made separately to each Programme, appraisal and project selection between both programmes will be co-ordinated through advisory groups (as described in the Implementing Provisions chapter below). Applications will need to be specific in allocating distinct activities, expenditure and outcomes to each Fund. Projects will also be required to report on the co-ordination between both sets of Funds on an annual basis.

Use of Community Planning Partnerships

For the first years of the period, the Programme will make limited use of the Community Planning Partnerships model for delivering some funding. As set out in Chapter 3 above, the Partnerships are local networks of key community regeneration and social inclusion actors which are charged with setting out their collective goals and spend on tackling regeneration/inclusion within Scottish-wide policy through Regeneration Outcome Agreements. They have been allocated Community Regeneration Fund support to take forward new activities within these Agreements. The partnership-based approach and the use of co-ordinated public funding offers clear opportunities to the Programme to extend the value added of the Funds. An example of such an integrated bid could include: funding the rolling-out of an e-skills learning project for target groups under the ESF Programme with the development of e-learning facilities under the ERDF Programme.

A small number of Community Planning Partnerships will be selected to deliver funding under Priority 3 of the Programme in conjunction with ESF Priority 1 at the start of the programming period. A minority share of the allocation under the priorities

will be available to support these Partnerships on a competitive basis and using the eligibility criteria of both priorities for selection (notably the geographical criteria). Selection will be on the basis of the eligibility criteria set out in the priority description above as well as the capacity of the Community Planning Partnerships to administer the Funds successfully. Detailed criteria – as well as further examples of integrated action plans – will be provided by the Managing Authority in advance of the bidding round.

The approach will encourage a more co-ordinated, area-based approach to addressing areas with the most severe social inclusion and employability problems. It is distinct from the Intermediate Delivery Body mechanism, which is described in detail in the Implementing Provisions chapter. Awards will be made on a competitive basis for a share of the joint ESF Priority 1-ERDF Priority 3 allocation. Funding will be provided for two years to support eligible activities as set out in the priority descriptions – this will act as a pilot for the approach to funding delivery. At the end of the two-year period, the Partnerships will be evaluated for the effectiveness and value added in their use of the funding, after which, decisions would be taken on whether the funding initiative would be continued.

Funding would be delivered through specified accountable bodies to be used in activities set out in line with key local strategies. Activity would be set out in annual Structural Funds Outcome Agreements. The Agreements would identify the specific activities to be funded by the ESF contribution, how the funding would be used in conjunction with the ERDF contribution (and identifying clear ESF outcomes for the funding), make clear the additionality of activity and set financial and performance targets in line with the priority targets. The Agreements would be monitored regularly by the Managing Authority, which would report to the PMC on the performance of the selected Community Planning Partnerships on an annual basis.

Other Co-ordinated Activity

Less formally, Priority 2 of the ESF Programme has also been designed to complement Priority 2 (Enterprise Growth) of the ERDF Programme. The focus of Priority 2 on the skills needs of entrepreneurs and SME managers will complement the support of Priority 1 in the ERDF programme on the enterprise development needs of SMEs, new enterprises and entrepreneurs. In addition, Priority 3 of the ESF Programme will also complement the support for higher and further education service provision eligible through ERDF Priority 4 (Rural Development). Where complementary activities fall into these priorities within the same project, co-ordinated joint applications will be invited to ensure that EU funding for projects is as integrated and strategic as possible. Such activity will be distinct from the Community Planning Partnership and the Intermediate Delivery Body activity, as it will be taken forward on a case-by-case basis with individual projects that are in a position to deliver high value-added through activity linking together two different priorities.

6.2 Territorial Co-operation Objective

As well as the ERDF and ESF programmes under the Regional Competitiveness and Employment Objective, there are a number of programmes in the different strands of the Territorial Co-operation Objective which cover part of the LUPS area. In the transnational co-operation strand, there are two relevant programmes. The Northern Periphery programme, which principally covers the Highlands & Islands, allows some eligibility in the LUPS area. The area is also eligible under the North Sea programme, whose priorities – not finalised at the time of the final drafting of the Operational Programme – most closely relate to Priorities 1 and 3. Lastly, under the cross-border co-operation strand, the LUPS area will be eligible for support from a programme with partners in Northern Ireland and Ireland.

Activity supported under these Co-operation programmes will be co-ordinated, where appropriate, with the ESF Programme through the Managing Authority. However, the scope for overlap is limited. There is also an option for inter-regional co-operation to be pursued as a strand of the ESF programme. Given the limited funding and the greater effectiveness of keeping co-operation activities under a single banner, the option is not currently envisaged for the LUPS area in the 2007-13 programming period.

Transnational and interregional co-operation actions may also be supported within all priority axes of the programme. Transnational arrangements will provide the opportunity to recognise activities being addressed by programmes elsewhere in the EU which can positively influence the delivery of the Programme in Scotland. Transnational ties with other Member States will operate at a national level through the Managing Authority. The Managing Authority will set out, in guidance, how transnational and inter-regional actions will operate. The Managing Authority will work with the Commission and appropriate national authorities to ensure that ESF does not support operations being concurrently supported through the programmes supported under the Co-operation Objective.

6.3 The European Agricultural Fund for Rural Development

Both the General and the ESF Regulations specify that the Operational Programmes must set out how ESF and the European Agricultural Fund for Rural Development (EAFRD) will complement each other. EAFRD in Scotland is governed by the Scottish Rural Development Plan, which covers the whole of Scotland. The Managing Authority for the Fund is the Scottish Executive Environment and Rural Affairs Department.

The ESF Programme and the Scottish Rural Development Plan (SRDP) have been developed in parallel by the Scottish Executive with particular attention given to the areas where project eligibility could overlap. The consultations on the two sets of documents made explicit reference to each other with responses solicited on the relationship between the two.

The main area where demarcation is important is with Axis 3 of the SRDP. Both programmes have some common areas of scope, as set out by their respective regulations. To ensure that there is no overlap in eligibility, but at the same time, that there is full complementarity in the activities supported, the lists of eligible activities of both the ESF Programme and the SRDP have been drawn up so that projects receiving funding through one stream in one phase of their development could receive follow-on support from the other stream in a new development phase. The following table sets out the eligible activity areas where this is envisaged.

Table 5: Demarcation between SRDP and ERDF activities

Type of activity	SRDP eligible activities	ESF eligible activities
<u>Training</u>	<ul style="list-style-type: none"> Vocational training for individuals in the agricultural, food and forestry sectors 	<ul style="list-style-type: none"> Limited training for individuals in the sectors mentioned for SRDP

Complementarity will be regularly also be reviewed through an annual meeting of the respective Managing Authorities. This will produce a report on joint implementation of the different Funds which will be presented on an annual basis to the Programme Monitoring Committee as part of annual reporting exercises. The PMC would then be able to refine eligibility criteria and project recommendations to take account of supported activity through the SRDP. As part of any mid-term evaluation, the strategic and operational fit between the programmes will be part of formal evaluation.

6.4 The European Fisheries Fund

The regulatory requirements applying to the EAFRD apply similarly to the European Fisheries Fund (EFF). In Scotland, EFF strategic priorities are set out in the strategy document and the Managing Authority is also the Scottish Executive Environment and Rural Affairs Department. Demarcation issues are more limited in the case of the EFF, because of the limited geographical overlap with the ESF programmes. The main parts of the LUPS area where EFF support is available is in the coastal zones of the Borders region.

The main areas where complementarity is evident are set out in the following table.

Table 6: Demarcation between EFF and ERDF activities

Type of activity	EFF eligible activities	ESF eligible activities
<u>Training</u>	<ul style="list-style-type: none"> Vocational training for individuals in the fisheries and aquaculture sectors 	<ul style="list-style-type: none"> Limited training for individuals in the sectors mentioned for the EFF strategy

As with the EAFRD, the two Managing Authorities will meet on an annual basis to review strategic and operational co-ordination and report back to the Programme Monitoring Committee.

6.5 EU Research Funding

The 7th Framework Programme for Research, Technology Development and Demonstration Activities has combined all research-related EU activity into a common framework addressing how research can contribute to achieving the Lisbon Agenda goals. The broad objectives of FP7 have been grouped into four categories: cooperation; ideas; people; and capacities. For each type of objective, there is a specific programme corresponding to the main areas of EU research policy though all are designed to work together to promote and encourage the creation of European poles of (scientific) excellence.

Similarly, the EU Competitiveness and Innovation Framework Programme also highlights areas identified in the socio-economic analysis for the region, such as competitiveness of enterprises, promotion of innovation and the promotion of energy efficiency. One of the key blocks of activities is the Entrepreneurship and Innovation Programme which fits with support under Priority 2 of the ESF Programme.

Complementarity between the different funding streams will be reviewed with the following instruments:

- ESF project applications would be required to show strategic fit and clear distinction from any relevant projects supported through FP and the CIP; and
- the Managing Authority will report annually to the Programme Monitoring Committee on project activity supported under the research streams to allow the PMC to make more informed decisions on eligibility criteria in the ESF Programme and project recommendations.

6.6 The European Investment Bank

The General Regulation specifies the need for the Operational Programme to discuss how the cohesion-policy funding initiatives of the European Investment Bank will be co-ordinated with the use of Structural Funds. The principal funding stream to which this applies are the JEREMIE and JESSICA Initiatives. JEREMIE provides a mechanism for setting up revolving loan instruments for providing development capital to enterprises while JESSICA provides repayable and recyclable assistance to public-private partnerships for urban renewal and development. However, it is not anticipated that this financing will be used in the ESF Programme.

7 IMPLEMENTING PROVISIONS

7.1 Roles and Responsibilities

The following section sets out the roles and responsibilities for the management of the programme. It covers the identity and duties of the following:

- Managing Authority
- Certifying Authority
- Audit Authority
- Compliance Body

Managing Authority

The Managing Authority of the Programme will be the Scottish Executive through the European Structural Funds Division in the Enterprise & Lifelong Learning Department:

Scottish Executive Enterprise & Lifelong Learning Department
European Structural Funds Division
Meridian Court
5 Cadogan Street
Glasgow G2 6AT
United Kingdom

In accordance with Article 60 of Regulation 1083/2006, the tasks of the Managing Authority will consist of the following:

- ensuring that operations are selected for funding in accordance with the criteria set out in the Operational Programme and with relevant Community and national rules;
- verifying that co-financed activities have been delivered and permissible expenditure defrayed in accordance with Community and national rules and that beneficiaries and other bodies maintain appropriate arrangements for accounting and maintenance of documents required for verification and audit;
- establishing and maintaining an effective monitoring system – including financial management, verification, audit and evaluation – and that beneficiaries can fulfil their monitoring obligations as well;
- providing the Certifying Authority with all appropriate information to allow it fulfil its obligations as set out below;
- guiding the work of the Monitoring Committee and providing it with appropriate monitoring information;
- ensuring the evaluations set out in Chapter 9 are made;
- overseeing the annual and final reports on implementation;
- ensuring compliance with the required publicity actions; and

- providing the Commission with information to allow it to appraise major projects as required.

Lastly, the Managing Authority will pay the beneficiaries on receipt of valid claims.

Intermediate Administration Body

In accordance with Article 59, the Scottish Executive has decided to delegate selected Managing Authority tasks to an Intermediate Administration Body (IAB). A single body will be responsible for managing and administering selected Managing Authority tasks in the ESF Programme on behalf of the Scottish Executive for the whole of the Lowlands & Uplands Scotland region. The principal tasks will be:

- publicity: to implement the relevant publicity requirements of the EU regulations;
- project applications: to facilitate the process of publicising, overseeing the application process, registering new organisations and provide advice and support to prospective applicants and communicating decisions, key guidance and programme/policy changes to partners;
- project selection: to undertake technical checks on applications and facilitate the assessment of challenge-fund applications and recommendations of awards to the Programme Monitoring Committee;
- project monitoring: to carry out monitoring visits on all projects in fulfilment of programme obligations;
- reporting: to monitor progress towards programme financial targets and contribute to programme requirements; and
- secretariat to the Programme Monitoring Committee.

The IAB will be accountable to the Managing Authority and act in accordance with the formal contractual agreement. ESEP Ltd has been awarded the contract to carry out these delegated functions will be reviewed by 31 December 2010:

ESEP Ltd
Suite 3
Forth House
Burnside Business Court
North Road
INVERKEITHING
Fife, KY11 1NZ

Certifying Authority

The Certifying Authority of the Programme will be the Scottish Executive through the Enterprise & Lifelong Learning Department. Certification will be undertaken by a unit within the Department that is functionally independent from the Managing Authority. Its tasks, as set out in Article 61, will be to:

- draw up and submit certified statements of expenditure and payment applications to the Commission;
- certify that the statements of expenditure are accurate and verifiable, comply with relevant Community and national rules and have been incurred in accordance with the relevant Operational Programme criteria;
- ensure for the purposes of certification that the Managing Authority has provided adequate information on procedures and verifications carried out in relation to the expenditure detailed in the statements of expenditure;
- take account of all relevant audits for the purposes of certification; and
- maintain adequate records of expenditure declared to the Commission and of amounts recoverable or withdrawn following cancellation of a contribution for an operation.

Audit Authority

The Programme Audit Authority will be the Scottish Executive through the Finance & Central Services Department.

Scottish Executive Finance & Central Services Department
Audit & Accountancy Services Division
Victoria Quay
Edinburgh EH6 6QQ
United Kingdom

As described in Article 62, the tasks of the Audit Authority will be to:

- ensure that audits are carried out to verify the effective functioning of the management and control system of the programme, including audits on a sample of operations to verify expenditure declared;
- submit to the Commission an audit strategy for the Programme within nine months of the programme's approval as well as an annual control report detailing the audits carried out during the previous year, their result and any shortcomings consequently found in the management and control of the programme;
- submit to the Commission an annual control report setting out audit findings in the previous year (to the period ending 30 June of the year concerned);
- issue an annual opinion on the basis of the controls and audits that have been carried out under the Audit Authority's responsibility as to whether the management and financial control systems function effectively and provide assurances to the Commission with respect to the statements of expenditure;
- where appropriate, produce for the Commission a declaration for partial closure assessing the legality and regularity of the expenditure concerned (where appropriate) and, at the latest by 31 March 2017, a closure declaration covered by the final statement of expenditure, which will be supported by a final control report; and

- ensure that audit work takes account of internationally accepted standards.

Compliance Body

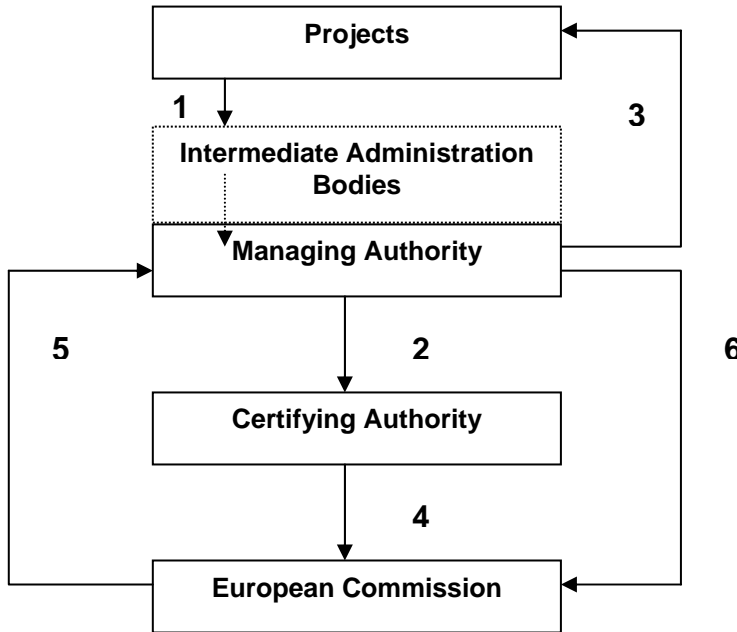
Article 71 requires that an independent body is designated to give an opinion whether the management and control systems are in compliance with the Articles 58-62, based on a description of the systems to be provided to the Commission within twelve months of the programme's approval. The 'Article 71' body for the Programme will be the same as the Audit Authority: the Scottish Executive through the Finance & Central Services Department.

7.2 Financial Flows and Payments

The Certifying Authority will make all payment claims to the European Commission, derived from the declarations of expenditure submitted by final beneficiaries. The Managing Authority will maintain systems to identify all Commission receipts as well as all payments to final beneficiaries. Procedures to ensure that all relevant regulations are complied with and appropriate financial controls will be in place. Financial flows will operate as follows:

1. Final beneficiaries declare through interim claims expenditure defrayed to the Managing Authority. The financial check obligations set out above are made by the Intermediate Administration Body.
2. The Managing Authority verifies claim expenditure and ensures that the financial management system contains correct information. The Intermediate Administration Body will be responsible for checking claims in the first instance before passing to the Managing Authority.
3. The Managing Authority certifies and authorises payments to final beneficiaries and carries out any necessary recovery action.
4. The Certifying Authority submits payment requests to the European Commission at Programme level.
5. The Commission makes payments to the Managing Authority's dedicated account.
6. When the Commission requests a refund, the Managing Authority will be responsible for the necessary payments.

Figure 5: Financial flows and payments



7.3 Partnership and Committee Structure

The Operational Programme will be implemented in partnership with the European Commission and with appropriate regional authorities and bodies in accordance with national rules and practice. At the consultation stage, the Programme was developed in partnership with key stakeholders such as relevant Government departments, social partners, equality commissions, the voluntary and community sector and others with a positive contributory role to play. Partnership arrangements will continue as programme activity is prepared, implemented, monitored and evaluated. The Managing Authority will encourage the participation of social partners in Programme activities. It will also encourage participation and access of non-governmental organisations, particularly in projects that will promote social inclusion, gender equality and equal opportunities in the Programme.

At Programme level, partnership will be embodied in the Programme Monitoring Committee, which will be responsible for monitoring implementation of the programme. A single PMC is proposed to oversee both the ESF and the ERDF Programmes for the Lowlands & Uplands Scotland area, ensuring greater strategic overview in specific project decisions but also in the overall use of Structural Funds for the region. The ESF and ERDF Programmes have been drawn up to complement each other strategically so a single strategic oversight body is appropriate.

Reflecting the principle of partnership, the PMC's membership will be drawn from representatives reflecting the key sectoral interests in the programme, including the economic, environmental and social partners, along with the Scottish Executive. As the PMC will bring together both ESF and ERDF interests, membership will be evenly and adequately drawn to ensure full representation of both interests. In

addition, the PMC will be selected to provide representation of the key sub-regions in the region and key local Structural Funds partner networks. The European Commission will be represented in an advisory capacity.

The PMC will set its rules of procedures with the Managing Authority within the institutional, legal and financial framework of the Member State. It is expected to meet at least twice a year and will be chaired by a senior Scottish Executive representative. The Intermediate Administration Body will provide the secretariat function for the PMC and its meetings, under the guidance of the Scottish Executive.

The PMC tasks will be to:

- adjust the Operational Programme, when appropriate;
- approve the indicative annual financing plan for each priority;
- set the criteria for selecting operations eligible for financing under each priority within six months of the Operational Programme approval to review the specific objectives of each priority at periodic intervals;
- consider the annual implementation reports to be submitted for the Programme before submission to the Commission and monitor progress towards achieving the targets set for the programme, particularly at the mid-term point;
- approve adjustments to applicant guidance;
- monitor co-ordination of funding with European Regional Development Fund, European Agricultural Fund for Regional Development and the European Fisheries Fund in line with the arrangements set out in Chapter 6;
- consider the recommendations of advisory groups on other projects and set out a list of recommended awards for Scottish Ministers;
- propose adjustments to assistance to the Managing Authority with respect to the implementation of the Programme; and
- set up appropriate supporting committees

The Committee will aim to have balanced representation in line with the equal opportunities vision set out in Chapter 8.

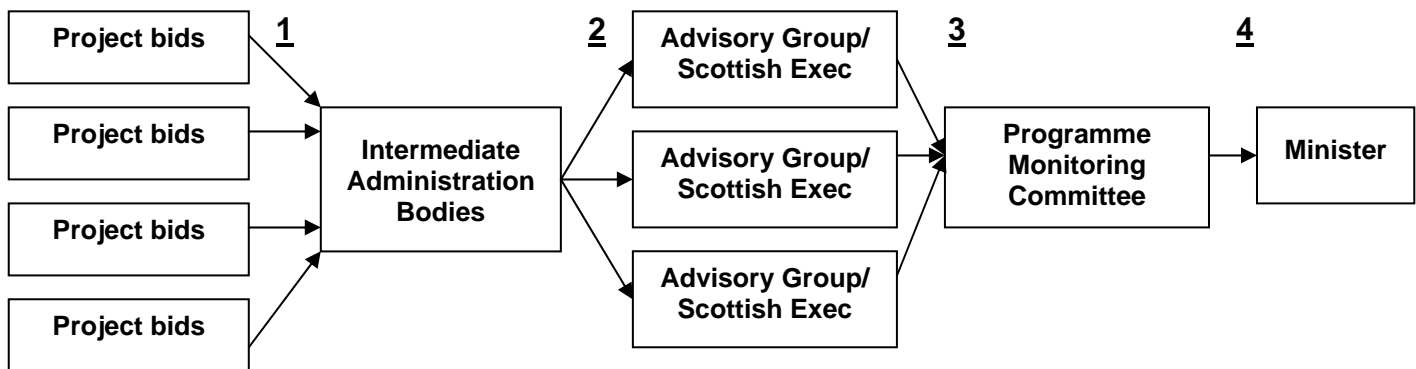
7.4 Award Decisions

The Programme is predicated on projects consistent with Programme objectives and contributing to Programme targets being identified for funding either through IDB arrangements or under direct competitive bidding into the priorities. Transparency and peer/partnership appraisal are important aspects of both – these have been traditionally used in Structural Funds appraisal and will continue to be so in the current period. Bids will be invited into each priority on an annual basis (as shown in Figure 5).

- Applications competing for funding will be exposed to technical/eligibility checks by the IAB (1).

- This is followed by peer and policy appraisal by the Scottish Executive and advisory groups (**2**). Each priority would be covered by a single advisory group, established by the Managing Authority though where joint appraisals may be required – as in the case of Priority 3 of the ERDF Programme and Priority 1 of the ESF Programme – joint sittings of the Groups and other mechanisms of co-ordination will be used. Membership of the advisory groups will reflect expert knowledge, key regional partners and Scottish Executive policy officials and would be chaired by the Managing Authority.
- Proposals/recommendations are then considered by the Programme Monitoring Committee or any sub-committees delegated to consider the recommendations by the PMC (**3**).
- Formal offers of grant are made on behalf of Scottish Ministers (**4**). Arrangements for deciding on IDB projects are discussed separately above.

Figure 9: Project appraisal and decisions



7.5 Transnational Activity

As part of all eligible activity under the Priorities listed in Chapter 4, projects will be able to engage with one or more Member States to carry out research into alternative methods of delivering the objectives specified in the project. Up to 10% of the total ESF award can be used on such activity.

Projects will be expected to explain how they will carry out the transnational element of their activities, though support will be limited to building on or extending existing international networks rather than developing wholly new networks. The lessons from the Equal Community Initiative suggest that this was the most effective approach to transnational working.

The Managing Authority will work with the Commission and appropriate national authorities to ensure that ESF does not support operations being concurrently supported through Community transnational programmes in the field of education and training.

7.6 Publicity

Article 69 of the General Regulation 1083/2006 stipulates that the Managing Authority is responsible for setting out communication and publicity actions to ensure the full visibility of the funds throughout the programming area. Publicity forms an integral part of the programming strategy and the Managing Authority will ensure that the benefits of the Funds are communicated to the wider public. The Managing Authority will be the chief body with responsibility for making sure publicity obligations are met.

Innovative publicity activities and campaigns using print, broadcast and creative media as appropriate will be employed by the Managing Authority to clearly promote and position the ERDF brand. These activities will be developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office Edinburgh and Information relays and networks in the UK as appropriate, which will ensure the visibility and transparency of the Funds at a local, regional and national level.

Potential projects sponsors and final beneficiaries/recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF funding during the programming period. Responsibility for this will lie with the Intermediate Administration Body on behalf of the Managing Authority, as set out above.

Project sponsors will be required to respect the publicity elements of the general and implementing regulations especially with regards to signage – including billboards, plaques and promotional material. These requirements will be set out in detailed guidance to be made available to potential applicants and project sponsors alike.

In conformity with the provisions set out in section 2 of the Implementing Regulation provisions, the Managing Authority will present a communications plan to the Commission no later than four months after the formal adoption of the Programme.

The Communication plan will set out the:

- objectives of the plan and the target groups;
- activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public;
- bodies/persons responsible for the implementation of the plan;
- budget for implementing the plan; and
- evaluation frameworks for the plan.

The Managing Authority will report on progress in implementing the plan (including examples of publicity activities) to the Programme Monitoring Committee and also in the annual implementation report. The Communication plan will be easily accessible and will be published on the Managing Authority's website. The use of electronic

media – through the Managing Authority's and the IAB's websites – will be the key channel of delivery for disseminating information about the Programme.

Funding for publicity and communications will be provided through the technical assistance budget for the programme.

7.7 Aid Schemes

The Programme will comply with Community law on state aids and the Managing Authority will notify relevant Programme activities under prevailing block exemption regulations.

7.8 Exchange of Computerised Information

The Commission has set up a new computer system to permit the secure exchange of data between the Commission and the Member State. The new system – SFC 2007 – will be used for the exclusive official exchange of all information about the Operational Programme, in accordance with the Commission's Implementing Regulation.

The Commission and the Member State will ensure compliance with relevant EU and national provisions on the protection of personal data. Information exchanged will be covered by professional confidentiality and protected in the same way as set out for similar information in national legislation. Information will not be used for any other purpose than that agreed between the Commission and the Member State, unless express consent is given by the Member State.

The system contains information of common interest to the Commission and the Member State. An agreement has been reached with the Commission on the core and categorisation data to be provided. The categories will not change during the Programme lifetime.

The Scottish Executive has also put in place appropriate computer systems for the collection, storage and security of information and documents relevant to the Programme.

Exchange of data and transactions will be signed electronically in accordance with the relevant EU Directive. The Commission will provide the arrangements for use of electronic signatures.

The Commission will regard a document as having been sent once it has been signed by the Member State in the system. The Commission acknowledges that the date of receipt by the Commission will be the date on which the Member State sends the documents.

In cases of *force majeure*, notably the malfunction of the computer system or the failure of a lasting connection, the Member State may forward information and documents to the Commission in hard copy.

8 CROSS-CUTTING THEMES

In the 2000-06 programming period, cross-cutting themes were defined to act as underpinning policy priorities and be applied across all programmes. These horizontal themes were embedded at all stages of programming, from project design and application, through project selection to implementation and, finally, to project monitoring and evaluation. As the *Adding Value, Keeping Value* report discussed in the section above on lessons of earlier programmes made clear, this commitment to a series of overarching policy objectives running through the programmes should be maintained into the 2007-13 period.

For the 2007-13 programmes, the intention is to build on the work of the horizontal themes in 2000-06 programming and further mainstream them. The General Regulation of the 2007-13 Structural Funds makes clear the need to address the issue in Article 3.1 (and further set out in Article 17):

The action taken under the Funds shall incorporate, at national and regional level, the Community's priorities in favour of sustainable development by strengthening growth, competitiveness, employment and social inclusion and by protecting and improving the quality of the environment.

As the Lowlands & Uplands Scotland ESF Programme has been developed with a view to supporting sustainable development in Scotland, the horizontal themes to be supported in the 2007-13 period reflect the commitment to achieving that goal. Sustainable development consists of three key elements:

- the sustainable growth of the Scottish economy in a way that does not compromise the environmental resources of future generations;
- the inclusion of as much as Scottish society as possible in the achievement and benefits of that growth, through equal opportunities and social inclusions actions; and
- the conservation of Scotland's environmental assets in pursuing sustainable development.

As the Programme already has as its central aim to contribute towards the sustainable growth of the region's economy by balancing support for underlying sources of national as well as regional competitiveness, the economic growth strand of sustainable development is already recognised. To ensure that the other two elements are mainstreamed effectively in the programme, three horizontal themes have been identified:

- equal opportunities;
- environmental sustainability; and
- social inclusion.

While they will be subject to common processes in the programme, they are discussed in turn below.

8.1 Equal Opportunities

A Structural Funds commitment to equal opportunities is clearly set out in the General Regulation at Article 16:

The Member States and the Commission shall ensure that equality between men and women and the integration of the gender perspective is promoted during the various stages of implementation of the Funds. The Member States and the Commission shall take appropriate steps to prevent any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementation of the Funds and, in particular, in the access to them. In particular, accessibility for disabled persons shall be one of the criteria to be observed in defining operations co-financed by the Funds and to be taken into account during the various stages of implementation

In Scotland, a wide view of equality has traditionally underpinned the design and operation of Structural Funds programmes, encompassing not just the integration of a gender perspective into all stages of programming, but ethnicity, disability, age and sexual orientation perspectives as well. All these perspectives have been applied to the design of the Programme and will permeate its delivery to ensure that no discrimination on any of these bases will take place. The 'mainstreaming' approach has been set out in the Scottish Executive's Equality Strategy – Working Together for Equality:

Mainstreaming equality is the systematic integration of an equality perspective into the everyday work of government, involving policy makers across all government departments, as well as equality specialists and external partners.

The Equality Strategy has been fully integrated into the design of the Scottish Structural Funds programmes. This can be seen in the Strategy's Objectives and how they apply to the programme:

- to make sure that an equality perspective is integrated into the Executive's work and activity in policy and programme development, legislation and spending plans, service design and delivery: in the Structural Funds programme, this has been apparent in the use of specialist workshops and 'equality' proofing in the development of the programme;
- to follow policies and programmes that seek to address the inequalities and exclusion which result from discrimination: the programmes have a range of 'vertical' and 'horizontal' measures designed to tackle discrimination, as outlined below;
- to extend the ownership of and commitment to this strategy to all key public, private and voluntary sector bodies, equality specialists, academics and trade unions: the mainstreaming approach described below is intended to ensure that all Structural Funds partners build the equality perspective into their project design and delivery;

- to promote the inclusion of under-represented groups in policymaking, decision-making and public appointments: representation of the target equality groups are included in the key decision-making and advisory bodies of the Programme;
- to foster greater understanding of and respect for Scotland's different communities: the publicity, good practice and training actions envisaged under the Programme's approach to equal opportunities have been developed from this perspective; and
- to educate and raise awareness about discrimination and the need for it to be challenged: the profiling of equal opportunities as a key horizontal theme in the programmes shows this commitment to awareness-raising.

Scotland has a strong tradition in mainstreaming equal opportunities into Structural Funds programming and past experience has formed the basis for the approach set out for 2007-13 programmes. The experience was extensively examined in the mid-term evaluations of the 2000-06 programmes, which gave special attention to the horizontal themes. In the case of equal opportunities, the common theme in the evaluations was the strong embedding of a mainstreaming approach in the management and administration of Structural Funds, but limits to pushing partners to develop their existing approach to equality further in their projects. Responding to these comments, the programmes developed a common Equal Opportunities Good Practice Guide, Equality in Practice – Making It Work, which picked out the principles and practical examples of mainstreaming equal opportunities into project design and delivery. Similarly, the report of the Mainstreaming Equal Opportunities in the EU Structural Funds Conference held in Glasgow in 2003 has also shaped the approach taken for 2007-13.

The Equal Opportunities Impact Assessment took forward the equal opportunities dimension in programme development, as summarised in an annex. As a result, the aim of the 2007-13 Programmes for equal opportunities is to take forward the work that has been done by earlier programmes. The vision is:

to increase the opportunities within the Programme for all groups and to prioritise and adapt support for groups facing particular disadvantages to participation.

The vision will be delivered through two objectives:

- **to adjust the scope of the Programme to support the particular needs of groups facing barriers to achieving sustainable employment and access to lifelong learning;** and
- **to improve the approach to mainstreaming equal opportunities in Scotland.**

These objectives are part of a twofold approach to equal opportunities. The first objective will be addressed through support for projects that explicitly aim to achieve equal opportunities goals. The approach is integrated across all three priorities. This

can be seen in examples of the types of activities in support of equal opportunities eligible under the different priorities:

- Priority 1
 - Explicit targeting of groups that often face discrimination and other equal opportunities challenges in accessing the labour market.
 - Customised support that recognises the key developmental needs and most appropriate modes of skills learning for different groups.
- Priority 2
 - Explicit support for projects that aim to reduce gender imbalance in the Scottish labour market.
 - Support for projects recognising the need to overcome discrimination and inequality in workplace training.
- Priority 3
 - Support for projects developing new, innovative approaches and instruments to encouraging access to lifelong learning by under-represented groups.

The second objective of the Programme's vision of equal opportunities will be achieved through a wider mainstreaming of the horizontal theme into Programme processes. This would mean that explicit consideration of the issues would be required at every stage of Structural Funds-supported policy and project design: from the initial development of the project/scheme through application for Structural Funds support to actual project activity and finally, monitoring and evaluation. Structural Funds cannot affect a cultural change alone, but through mainstreaming, help to set up procedures that will inform policy-making and project design more generally.

The instruments for mainstreaming build on existing methods which have been tested and assessed under 2000-06 programmes, not just in Scotland but elsewhere in the UK.

- Administration and management: The equal opportunities perspective outlined here will be applied throughout the different management and administration arrangements of the Programme. The Programme Monitoring Committee will aim for to have a balanced representation in line with the equal opportunities vision set out above. Similar representation will be pursued for the roles and responsibilities set out in Chapter 7 above, in line with the equal opportunities policies set out for the Scottish Executive and the Intermediate Administration Body.

- **Capacity.** The experience of 2000-06 programmes has shown the importance of having equal opportunities champions and expertise in different parts of programme delivery. *Champions* will be designated for the different committees, particularly the Programme Monitoring Committee and advisory groups in the Programme, in many cases drawn from relevant Scottish organisations. However, the Programme's commitment to equal opportunities will not be concentrated in individuals, but be a dimension to all delivery activities. Consequently, short-term *expertise* will be used for training different parts of the delivery system to mainstream equal opportunities on a continuing basis through the Programme lifetime. There is also a need for expert advice to be available to projects in terms of meeting their equal opportunities obligations. This will be provided through the 'delivery body' and core guidance and good practice material.
- **Selection:** To encourage projects to take full account of equal opportunities, the principle will be embedded in the application and selection system for projects. All projects will be required to demonstrate a commitment to equal opportunities as a core programme criteria at each part in the application form, showing – where relevant – how the issue has been taken fully into account at all stages of project design, implementation and evaluation. A minimum level of commitment needs to be demonstrated for project selection. Where projects can demonstrate that they are exceeding regulatory norms in their approach to equal opportunities, they will be given a higher score.
- **Monitoring:** To assess the equal opportunities impact of the Programme, relevant indicators have been built into the project monitoring system. The issue will be reviewed annually for the Programme Monitoring Committee and independently assessed as part of a mid-term evaluation.

8.2 Environmental Sustainability

As defined by the World Commission on Environment and Development, sustainable development entails "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). Environmental sustainability is the component in a sustainable development approach governing how the environmental resources of a region are used. While usually referring to the treatment of the physical environment, environmental sustainability has wider implications beyond natural resource usage, involving cultural attitudes to environmental protection. Consequently, environmental sustainability has several elements that should be addressed in programming:

- ensuring that economic and social development is fully in line with the conservation of the surrounding environment and its biodiversity;
- making full economic and sustainable use of environmental assets so that conservation and economic development goals reinforce each other rather than work in opposition or require compromise; and
- raising awareness of the importance of environmental sustainability as a fundamental consideration in project /policy-making more widely.

This has been given higher profile in recent years with the EU's commitment to the principle through Gothenburg and in the UK, by the recently-published Stern Report.

Within Scotland, there is a strong tradition of environmental sustainability in domestic policy, both in terms of giving it due policy prominence as an area in its own right as well as promoting it as a key influence on all policy-making. As the Scottish chapter of the National Strategic Reference Framework detailed, the Structural Funds programmes in Scotland for 2007-13 would reflect both goals by being fully informed by the key environmental sustainability statements of policy, particularly the Green Jobs strategy, the Scottish Sustainable Development strategy and the Scottish Biodiversity strategy. The strategies are discussed below.

The Scottish Sustainable Development Strategy, set out in 2005, shares with the UK the common aspiration:

to enable all people throughout the world to satisfy their basic needs and enjoy a better quality of life without compromising the quality of life of future generations

The strategy has four sets of principles:

- sustainable consumption and production: achieving more with less by reducing the inefficient use of resources, considering the impact of products and materials across their whole lifecycle and encouraging people to take into account the social and environmental consequences of their purchasing choices;
- climate change and energy use: securing a profound change in the way in which energy is generated and used and reducing greenhouse gas emissions.
- natural resource protection and environmental enhancement: protecting natural resources by developing a better understanding of environmental limits and actively improving the quality of the environment; and
- sustainable communities: creating communities that embody the principles of sustainable development locally

The Scottish Green Jobs Strategy outlines how Scotland should seize the enterprise opportunities and advantages arising from sustainable development with a view to creating a vibrant, low-carbon economy with Scotland a centre for green enterprise. This would be achieved through a combination of support for the economic opportunities arising from a commitment to environment sustainability – such as renewables technologies and economic efficiencies arising from waste-recycling – as well as more general information-raising and skills improvements in mainstreaming environmental issues into economic activity.

The Scottish biodiversity strategy – It's in Your Hands – was published in 2004. While Structural Funds are limited in their pro-active contributions to direct conservation work, the principles of the strategy underpin the Programme with respect to proofing all funded project activity so that there is a neutral, if not positive impact of Structural Funds support on biodiversity within the region.

There is also a strong tradition of environmental sustainability in Scottish Structural Funds programming. It has been a key horizontal theme in earlier programmes, particularly in the 2000-06 period, where the approach to sustainable development was taken forward substantially. Structural Funds programming has developed a 'missionary' approach to environmental sustainability, viewing its embedding in wider policy-making as one of the legacy aims of the Programmes. To a large extent, this has been achieved through the development of an archive of good practice projects and processes, which have informed the development of the approach taken in the 2007-13 programme. For example:

- The Scottish Natural Heritage good practice guide, Linking Sustainable Development to Regional Development, has been an important source document in programme development.
- The approach was also an important focus in mid-term evaluations in the 2000-06 programming period. The evaluations noted the success in establishing a commitment to environmental sustainability across the different programmes, while acknowledging that there remained significant challenges to ensuring more than lip service at project level. Addressing these continuing challenges has been a UK-wide goal.
- Lastly, the 2007-13 Programme has made use of UK research to tackle the issue, particularly Leaving a Legacy, a report of the Environmental Sustainability seminar for Structural Funds programme practitioners in England.

Against this background, the environmental sustainability vision of the 2007-13 Programmes is as follows:

to ensure that Structural Funds programmes promote the sustainable use and conservation of Scottish environmental assets by enhancing the role of environmental sustainability in economic and social development policy-making

This translates into two distinct objectives governing Programme activities:

- **to strengthen the mutual contributions of environmental sustainability and economic and social development in Structural Funds-supported activities;** and
- **to raise awareness of the role of environmental sustainability in project planning and policy development.**

As with equal opportunities above, the two objectives embody a twofold approach to horizontal themes. The first objective will be addressed through direct support for projects that explicitly aim to achieve environmental sustainability goals. The approach is integrated across all three priorities. This can be seen in the examples of activities in support of environmental sustainability that would be eligible under the different priorities:

- Priority 1
 - Requirement that projects meet recycling and environmental sustainability standards as a condition of support.
- Priority 2
 - Encouraging skills training projects for enterprises to include environmental and resource sustainability as one of the skills to be included.
- Priority 3
 - Development of environmentally-friendly approaches to improving lifelong learning access (eg. distance learning instruments that reduce carbon emissions).

The second objective of the Programme's vision of environmental sustainability will be achieved through a wider mainstreaming of the horizontal theme into Programme processes. Again, paralleling the approach under equal opportunities, this would mean that environmental sustainability issues would be built into policy and project design at each stage. The instruments for mainstreaming are the same as those for equal opportunities. They build on existing methods which have been tested and assessed under 2000-06 programmes, not just in Scotland but elsewhere in the UK. Projects that exceed environmental regulatory standards will be given higher scores in project scoring. More detailed criteria will be developed in advance of the first round of programming.

It should be noted that this Programme did not have a Strategic Environmental Assessment as the direct impacts of the programme on environmental issues were not felt to warrant a formal exercise in the view of the SEA authorities.

8.3 Social Inclusion

The essential principle of the 'European Social Model' is to reconcile social inclusion, competitiveness and economic performance. Structural Funds can act as a catalyst to ensure a genuine interaction between social policies and economic policies. The Lisbon Strategy centred on growth and employment, was taken up by the European Council in a broader context so that it formed both a social agenda and a durable development strategy. It is that broader context which is reflected in the Scottish Structural Funds programmes.

Social inclusion is about reducing inequalities between the least advantaged communities and the rest of society by closing the opportunity gap and ensuring that support reaches those who need it most. It means actively promoting opportunities to participate, whether in work, in learning or in society more generally. Having this as a cross-cutting theme will help ensure that communities are strengthened and regenerated, that young people get the best possible start in life and the opportunity to fulfil their potential, and that older members of these communities are able to contribute fully while also improving their skills, and their future financial security.

An essential part of the commitment to the Lisbon and Nice strategies was to secure greater social inclusion and to make a decisive impact on poverty. The UK's National Action Plan on Social Inclusion describes the current position in the UK and the action that the UK Government will take in the years 2006 to 2008 to tackle poverty and increase social inclusion. This plan reflects an in-depth engagement with a wide range of stakeholders, including people experiencing poverty, the voluntary and community sector, and devolved and local government.

Through work people can lift themselves and their children out of poverty by raising their income and expectations. That is why employment is at the heart of our approach to inclusion, while ensuring security and support for those who cannot work.

Strong links must be made between the Closing the Opportunity Gap approach to social inclusion (as set out in Chapter 3) and structural funds policy and implementation in the new programme, so that the Structural Funds can be used to enhance Scotland's social inclusion agenda. Social inclusion cannot be a secondary aim, or a product of the state of the economy. It has a fundamental value in its own right that contributes to the durable development of an 'economic and social model', which combines a social objective and an economic objective forming an integrated strategy where the social policy is designed as an investment in the human capital and is therefore a productive factor.

Against this background, the vision of the 2007 – 2013 Programme for social inclusion is:

to ensure that economic growth and tackling exclusion go hand in hand to help people overcome multiple barriers to employment and realise their full potential.

The vision will be delivered through two objectives:

- to focus on: the most important issues that will make the most difference to people's lives; the most disadvantaged individuals; the issues where progress has been slowest; and the issues where the Executive has the power to make a difference; and
- to improve the way in which services are provided to help people overcome multiple barriers to employment, education or training, and realise their potential.

The first challenge is obviously that of exclusion and unemployment or inactivity. Working to reduce the divide between those who benefit from globalisation and those who are excluded from it is key. The second is to focus on supporting people through the changes that globalisation will bring, develop new skills and make the most of their talents. However, it is also essential to improve access to the services and advice which can enable individuals to engage, and reduce the number of those who feel threatened by a growing risk of poverty. In this way the benefits of a growing economy can be carried over to our social institutions to create new safety measures as economic and social reforms move together.

This approach can be seen in the types of activities in support of social inclusion which are eligible under the different priorities in the programme:

- Priority 1
 - Requiring organisations to focus on those individuals most at risk of exclusion, and/or who are experiencing poverty. Projects' objectives should include elements which help integration and are designed to support participants in the longer term.
- Priority 2
 - Encouraging skills training for low income workers to lift them out of poverty and reduce their financial exclusion.
- Priority 3
 - Improving access to quality learning services for those who are excluded from lifelong learning because of their caring responsibilities, a disability, physical or mental ill health, the area in which they live, or their recent employment history.

An inclusive labour market supports social inclusion and a well-functioning economy. This is a long-term approach, which requires a balance between the objectives of social inclusion and economic objectives. The reality that poverty and exclusion is not decreasing among all groups or communities, despite the efforts so far, points clearly to the fact that actions to close the opportunity gap need to be mainstreamed across all the new Structural Funds programmes and priorities.

9 EVALUATION, MONITORING AND REPORTING

9.1 Evaluation

In accordance with general provisions in Articles 47 and 48 of the General Regulation, the evaluations covered under this Operational Programme will aim to improve the quality, effectiveness and consistency of the assistance provided under the Programme.

Our approach to evaluation activity builds on the lessons learned from the Scottish European Structural Funds Evaluation Strategy of 2000-06 and the refreshed Strategy covering the years 2004-06. Evaluations will be carried out by experts or bodies, internal or external, functionally independent of the Scottish Certifying and Audit authorities and will be financed from Technical Assistance. The following sets out the expected evaluation activity to be covered in the lifetime of the 2007-13 Programme.

- Ex-ante evaluation. The evaluation cycle is required to start with an ex-ante evaluation of the programme, an iterative process ongoing in relation to this Operational Programme. This also includes a Strategic Environmental Assessment of the Programme as well.
- Ongoing strategic evaluation. In applying the lessons from the 2000-06 evaluation activities it is important to recognise the need to review how the programmes are performing at suitable points of the programme. The experiences of the 2000-06 Programme evaluations – the mid-term evaluation (2003) and the mid-term evaluation update (2005) – show the key is to measure programmes when they have been under actual operation for a time period which is not too early to report on results or, conversely, too late to affect any important change of direction to the programme. As such we will set up a Scottish Evaluation Group to make decisions on the optimum times, and key thematic areas of activity, to cover in a Scottish Evaluation Strategy for 2007-13. Such areas are likely to include the horizontal themes (equal opportunities, environmental sustainability and social inclusion) as well as the key thematic areas covered by the Programme priorities. This strategy will now be refreshed on a yearly basis and consultation on content for corresponding years ahead will be taken with partners through Programme Monitoring Committees and in line with the European Commission evaluation planning. This revised approach will allow the Programmes to plan evaluation on a more flexible and need-driven basis.
- Ongoing operational evaluation. The delivery arrangements in Scotland have altered from the 2000-06 Programme. Projects will now be delivered under two systems:
 - Competitive bidding – applications delivered through the newly-appointed Intermediate Administration Body (IAB).
 - Commissioned approach – a series of strategic projects, planned through a detailed strategy, by the designated Intermediate Delivery Bodies (IDBs).

We will be undertaking a review of the new arrangements in 2010, to take stock of this new operating environment, including specifically the publicity measures achieved by the new structures

- Ex-post evaluation - it will be the Commission's responsibility to carry out an ex-post evaluation, in line with Article 49 of the General Regulation, to be completed by 31 December 2015.

The evaluations will take appropriate account of the equal opportunities, environmental sustainability and social inclusion objectives of the Programme outlined in Chapter 8.

9.2 Monitoring

Monitoring will be the joint responsibility of the Managing Authority, the Monitoring Committee, partners and the IAB, in accordance with Articles 63-66 of the General Regulation. These bodies will be responsible for setting up appropriate monitoring systems, defining indicators and disseminating knowledge of their use, ensuring that projects fully understand their reporting obligations, assuring themselves on the quality and coverage of the indicator data, and providing appropriate reporting on the basis of that data.

In essence, project partners will be responsible for reporting on the indicators set out under the priority descriptions in Chapter 4, as appropriate for their project, on a quarterly basis. These reports will be initially checked for consistency by the IAB and the information will be stored and analysed on a regular basis by the Managing Authority. Analysis of the information will feed into reports to the Programme Monitoring Committee – twice-yearly for regular project reporting but also on an annual basis for the Annual Implementation Reports discussed below. The data will also be used as part of the thematic evaluations detailed in the previous section.

A quarter-year monitoring regime of projects will ensure the quality and effectiveness of implementation of projects through assessment of progress towards achievement of the indicators defined in the Programme (as discussed below). In drawing up indicators, account has been taken of the indicative methodology and practical guidance in the Commission Working Paper Indicators and Evaluation: A Practical Guide, including the main messages of that paper concerning:

- creating an evolutionary approach from existing indicators;
- concentrating on better focused and less complex set of activity measuring;
- making clear links to priorities within EC policies; and
- adopting a broader approach to the concept of core EU indicators.

Management information systems will provide core data on a regular, timely and consistent basis throughout the programming period, enabling the Managing Authority and Programme Monitoring Committee to monitor programme performance and results in line with their responsibilities. The management information provided will enable analysis of performance in terms of geographical area and participant

characteristics and so provide essential information to key stakeholders. Where appropriate, statistics will be broken down by gender.

A set of core management information requirements for ESF and co-financed activity will:

- enable progress towards the achievement of financial, output and result indicators to be assessed at priority level;
- provide performance measures for the Managing Authority and the PMC;
- feed into preparation of the reporting requirements set out in the next section;
- allow transfer of data to the Commission as required in the Commission's Implementing Regulation, particularly Annex XXIII; and
- contribute to the wider evaluation of the Programme – where necessary, the core information requirement will be supplemented by other information such as follow-up surveys as set out in the section above.

9.3 Reporting

Reporting will also be the joint responsibility of the Managing Authority, the Monitoring Committee, partners and the IAB, in accordance with Article 67 of the General Regulation.

As noted above, partners will be responsible for submitting the required robust, verifiable and up-to-date information under the different indicators on a regular basis, as set out by the Managing Authority. Reports on programme performance against key priority indicators will be made to the Programme Monitoring Committee on a twice-yearly basis by the Managing Authority.

An annual implementation report (AIR) for the Programme will be provided for the first time in 2008 and by 30 June each year and thereafter for the length of the Programme period. The first report will be due by 30 June 2008. The report will be examined and approved by the Monitoring Committee before being sent to the Commission by the Managing Authority. The Managing Authority is setting a voluntary target date of prior submission to the European Commission of 30 April each year. The report will be prepared by the Managing Authority and the IAB jointly.

The Annual Report will include the information set out in detail under Article 67(2) of the General Regulation, which includes:

- progress made in implementing the programme;
- an update on the financial implementation of the programme;
- an indicative breakdown of the allocation of the Funds by category;
- steps taken by the Managing Authority, partners and Monitoring Committee to ensure the quality and effectiveness of implementation;
- measures taken to provide information on and publicise the programme;

- information about significant problems in terms of compliance with community law;
- progress and financing of major projects;
- use of assistance made following financial corrections, in accordance with Article 98(2); and
- cases of modification, in accordance with Article 57.

The Commission will inform the Programme of its opinion on the admissibility of report within ten days of days of its receipt and offer its opinion on the content within two months. Following consideration by the Commission, the Managing Authority and partners, the Monitoring Committee will adopt the AIR and agreed adjustments to the Operational Programme.

An annual review between the Commission, the Managing Authority and partners will also take place, in accordance with Article 68. The review will examine progress made in the proper functioning of the operational programme, the principal results achieved, the financial implementation and other factors, with a view to improved delivery.

A final report on the implementation of the Operation Programme will also be provided, as outlined by Article 67, by 31 March 2017. The same content and procedure (submission to the Commission by the Managing Authority after examination and approval by the Programme Monitoring Committee) for annual reports apply to the final report.

9.4 Indicators and baselines

Article 37 of the General Regulation states that Programme documents should contain “information on the priority axes and their specific targets... the indicators shall make it possible to measure the progress in relation to the baseline situation and the achievement of the targets in the priority axis”. Specific indicators, targets and their rationales have been included in the ‘Indicators and targets’ sections of the priority descriptions in Chapter 4.

In view of the proportionality principle and the requirement to limit the number of indicators to make their monitoring effective, there are not quantified indicators for every target group/activity. Moreover, some data will be collected through individual participants data collection – in line with the partner responsibilities set out above – and some through specific follow-up survey/evaluation work.

The Managing Authority will set out national definitions for each of the indicators as part of guidance to applicants on monitoring. When reporting the information required by Annex XXIII of the Implementing Regulation, EU definitions will be used.

Baselines for each priority are set out here. They have been selected with a view to capturing the key goals of each priority and will be assessed in the second half of the Programme, although attribution of changes in these regional indicators to Programme activity may be difficult to make because of the small size of Programme resources relative to the region's economy.

- For Priority 1: the levels of economic activity in the region and working-age people in education, employment or training (the Programme should contribute to the share increasing), the share of NEET and sick and disabled benefit claimants (the Programme should contribute to these shares decreasing) and the ethnic minority employment rate (the Programme should contribute to this increasing);
- For Priority 2: the share of employees below the low-pay threshold (the Programme should contribute to the share decreasing), the gender pay gap through female earnings levels (the Programme should contribute to this share increasing), the share of over-50s without qualifications (the Programme should contribute to this figure decreasing), the new firm formation rate and the gross value added of the region relative to the UK (the Programme should have a positive impact); and
- For Priority 3: share of adult participation in education and training (the Programme should contribute to this share increasing).

Baseline indicator	Baseline source	Baseline figure
<u>Priority 1</u>		
Economic activity rate 15-64 year olds	ONS (2004)	79.9%
Working-age people in education, employment or training as share of all working-age people	Annual Population Survey (2005)	79.7%
Share of NEET in all 16-19 year olds	Scottish Executive (2005)	14%
Sick and disabled benefit claimants as a share of total working population	Annual Population Survey (2005)	11%
Ethnic minority employment rate	Annual Population Survey (2005)	56.4%
<u>Priority 2</u>		
Share of employees below low-pay threshold	Annual Survey of Hours and Earnings (2004)	22%
Average earnings levels of female relative to male employees	Annual Population Survey (2004)	84%
Share of over-50 employees without qualifications	Labour Force Survey (2004)	20%
Number of business start-ups per 10,000 people	Small Business Survey (2005)	28
Gross value added in the region relative to UK	ONS (2004)	96%
<u>Priority 3</u>		
Share of adults participating in education/training in the last four weeks	Labour Force Survey (2004)	15.3%

In addition, there will be a set of Programme-wide indicators based on the priority indicators described in Chapter 4. Data will be collected by compiling the priority indicators for reporting to the Programme Monitoring Committee and the annual implementation reports. The indicators are:

- Number of participants entering into employment
- Number of participants completing a partial or full qualification

ANNEX A: GLOSSARY OF ACRONYMS

ASLFS – Annual Scottish Labour Force Survey

CPP – Community Planning Partnership

CRF – Community Regeneration Fund

DWP – Department for Work & Pensions

DP – Development Partnership

EET – in ‘education, employment or training’

ESOL – English for Speakers of Other Languages

EAFRD – European Agricultural Fund for Rural Development

EFF – European Fisheries Fund

ERDF – European Regional Development Fund

ESF – European Social Fund

EU-15 – 15 Member States of the pre-May 2004 European Union

EU-25 – 25 Member States of the post-May 2004 and pre-January 2007 European Union

FEDS – Framework for Economic Development in Scotland

FE – further education

GROS – General Register Office for Scotland

GRfW – Get Ready for Work

GDP – gross domestic product

GVA – gross value added

HE – higher education

IB – Incapacity Benefit

ICT – information and communication technologies

ISDN – Integrated Services Digital Network

IAB – Intermediate Administration Body

IALS – International Adult Literacy Survey

ISCED – International Standard Classification of Education

JSA – Jobseekers Allowance

LUPS – Lowlands & Uplands Scotland

MA – Modern Apprenticeships

NSRF – National Strategic Reference Framework

ND – New Deal

NDYP – New Deal for Young People

NEET – ‘not in employment, education or training’

NUTS – Nomenclature of Territorial Units for Statistics

ONS – Office of National Statistics

OECD – Organisation for Economic Co-operation and Development

PMC – Programme Monitoring Committee

RTD – research and technological development

SCVQ – Scottish Council for Vocational Qualifications

SIMD – Scottish Index of Multiple Deprivation

SRDP – Scottish Rural Development Programme

SVQ – Scottish Vocational Qualifications

SME – small and medium-sized enterprise

SEA – Strategic Environmental Assessment

TEA – Total Entrepreneurial Activity

TfW – Training for Work

VAT – Value Added Tax

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- SFEFC/SHEFC (2005) *Learning for All*, Report of the Widening Participation Review Group, Scottish Further Education Funding Council and Scottish Higher Education Funding Council.
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- Social Exclusion Unit (2004) *Jobs and Enterprise in Deprived Areas*.

ANNEX C: PROGRAMME DRAFTING

Introduction

Overall drafting on the 2007-13 Programmes has been overseen by the European Structural Funds Division (ESFD) within the Scottish Executive. Specific drafting and research has been undertaken as follows:

- background paper for socio-economic analysis: Training and Employment Research Unit in the University of Glasgow;
- background paper on indicators and targets for the Programme: DTZ;
- Equal Opportunities Strategic Assessment, led by the ESFD; and
- ex-ante evaluation of the Programme: Hall Aitken Associates.

Throughout the development of the 2007-13 Programmes, there has been regular and intensive engagement with external partners, as detailed in the sections below. This has taken place against a background of difficult decisions having to be made because of the sharp reductions in the Structural Funds coming to Scotland.

Programme drafting, engagement and consultation has gone through several stages:

- initial engagement on proposals;
- the development of the National Strategic Reference Framework document; and
- the public consultation on the draft Scottish programmes.

Initial engagement

Following the EU Budget agreement in December 2005, the Scottish Executive initiated active discussion on programme development through a series of stakeholder events held in December 2005 and January 2006 throughout Scotland (Dunfermline, Glasgow, Inverness and Melrose). At these meetings, the Executive set out initial views on the programmes and priorities for discussion. The meetings were intended by approximately 200 representatives of a range of partner organisations, including Local Authorities, the Enterprise Networks, further and higher education institutions, the voluntary sector, environmental bodies and other organisations.

Following these events, discussions on future programming continued through the Scottish European Structural Funds Forum. Chaired by the Scottish Deputy Minister for Enterprise & Lifelong Learning, the Forum brings together senior representatives from the main Structural Funds partner organisations. Programme development was discussed at meetings on 30 January, 2 October and 12 February 2007.

Two important studies were commissioned during this initial phase. First, Hall Aitken Associates were commissioned to do a study of the new delivery options for the Structural Funds programmes in Scotland, making use of comparative case studies from other parts of the EU; the recommendations of Making Every Euro Count are discussed in section 3.2 of this report. Second, a study group of ESFD and Programme Management Executive representatives produced a report on how to preserve and enhance value added activities supported by the Structural Funds; the Adding Value, Keeping Value report is discussed in 3.2 as well.

National Strategic Reference Framework

The National Strategic Reference Framework (NSRF) was produced under the overall co-ordination of the UK Department of Trade and Industry. A Scottish chapter was prepared for the NSRF by the ESFD, taking into account partner views on initial programme proposals as set out in the stakeholder events and the Structural Funds Forum. The DTI held a consultation on the NSRF, which ended on 22 May, with some 45 responses coming from Scottish partners. Taking account of these views, the ESFD provided the Scottish Executive response for the UK Government's Response to the consultation, which was published in October. Partner views expressed in the NSRF consultation were also taken into account in preparing the draft Scottish programmes for consultation.

Public consultation on draft Programmes

A full public consultation was held on the four Structural Funds programmes- the ERDF and ESF Programmes under the Convergence Objective in the Highlands & Islands, and the ERDF and ESF Programmes under the Competitiveness Objective in Lowlands & Uplands Scotland. It began on 24 October and ended on 8 January.

103 responses were received on the consultation document for the Lowlands & Uplands Scotland (LUPS) area and 21 for the Highlands & Islands (H&I) consultation document. The main category of respondents for the LUPS programmes were region-wide organisations (22 responses). In terms of locality, a significant number of respondents were based in the City of Glasgow (16 responses) and a further 8 responses in the City of Edinburgh. In regional terms, the West of Scotland provided 35 responses, the East of Scotland, 28, and a significant number came from the South of Scotland, particularly Dumfries & Galloway (13 responses). At least one response was received from each Local Authority area, with the exception of Inverclyde, as the following table outlines (the table does not include responses that were region-wide).

Aberdeen City	3
Aberdeenshire	2
Angus	1
Argyll and Bute	2
Clackmannanshire	2
Dumfries & Galloway	13

Dundee City	2
East Ayrshire	1
East Dunbartonshire	1
East Lothian	1
East Renfrewshire	1
City of Edinburgh	8
Eilean Siar (Western Isles)	3
Falkirk	1
Fife	2
Glasgow City	16
Highland	2
Inverclyde	0
Midlothian	2
Moray	2
North Ayrshire	2
North Lanarkshire	3
Orkney	1
Perth & Kinross	1
Renfrewshire	3
Scottish Borders	5
Shetland	1
South Ayrshire	1
South Lanarkshire	5
Stirling	1
West Dunbartonshire	1
West Lothian	2

By sector, Local Authorities were the largest group responding to the LUPS consultation (33 responses). A large number of responses also came from the Higher and Further Education sector (26 responses), the voluntary sector (18 answers) and a number of sub-regional umbrella organisations, including Community Planning Partnerships (CPPs) and other local partnerships (16 responses), as well as Scottish Executive agencies and Government bodies (12 responses). Responses were also received from individuals and business organisations.

Local authorities	33
Scottish Executive Agencies, NDPBs, Government bodies	12
Sub-regional umbrella organisations, CPPs, local representatives	16
Professional bodies, Trade Unions, industrial organisations	0
Academic groups	0
Political parties, MPs, MSPs, MEPs	5
Education & skills organisations, Higher Education, Further Education	26
Third sector/voluntary sector	18
Individuals	4
Business organisations	4
NGOs	6

In addition, a series of specific workshops involving external partners were run to focus on specific priorities and themes in November and December. In Lowlands & Uplands Scotland, workshops were held on each priority in the ERDF and ESF programmes, typically involving 15 partners drawn from a wide range of organisations representing Local Authorities, the Enterprise Networks, the voluntary sector, higher and further education, Government bodies and other organisations. The workshops enabled more intensive discussion on the content and delivery of each priority. Workshops were also held on the two horizontal themes – equal opportunities and environmental sustainability – and there were a series of similar workshops involving the Programme Review Group in the Highlands & Islands.

Executive summary of partner and Executive responses to the Lowlands & Uplands Scotland consultation

The consultation on the Lowlands and Uplands 2007-2013 Operational Programmes was launched on 24 October 2006 and was completed on 8 January 2007. The consultation covered the two programmes for the region under the new Competitiveness Objective of the 2007-2013 Structural Funds period: one European Regional Development Fund (ERDF) Programme and one European Social Fund (ESF) Programme. The consultation was held in parallel with the consultation of the Operational Programmes for the Highlands and Islands area under the Convergence Objective.

Overall, there was a strong response to the consultation, reflecting the historical active engagement of Scottish partners in the development of Structural Funds programmes. Written responses were submitted by 103 respondents altogether from across the region, reflecting nearly all geographical parts of the region and all stakeholder sectors.

Socio-Economic Analysis

Partners were largely positive about the socio-economic analyses underpinning the Operational Programmes. A number of suggestions were made for their improvement, including more sub-regional analysis, sensitivity to local economic characteristics and a range of thematic issues such as the role migrant labour and the impact of demographic changes. These will be added to the revised Operational Programmes, strengthening the analyses. In addition, following the completion of the SEA, environmental analyses of the region will be included as well.

Priority Content

On the appropriateness, consistency and coherence of the ERDF priorities, respondents were largely positive but there were numerous comments on ways in which the priorities could be refined. Under Priority 1, several respondents asked for targeting in favour of the areas of need within the region while others argued that the support for research and innovation should be defined more widely. Under Priorities

2 and 3, concerns were raised about whether specific areas would be covered under the 'urban' and 'rural' definitions under each priority. Views on allocations were similarly mixed but with little consensus on an alternative funding split.

In responding, the Executive will make several changes to the priorities. To give greater focus to the region-wide support in the Programme, Priority 1 will now be split: the new Priority 1 will continue to focus on research and innovation (though with a wider view of the processes) while Priority 2 will concentrate on access to finance, entrepreneurship and resource/energy efficiency. No spatial targeting will be introduced for this priority. The new Priorities 3 (urban regeneration) and 4 (rural development) will remain, but overall there has been a re-balancing of funding towards the region-wide priorities (1 and 2).

With regards to ESF priorities, again, respondents were satisfied that they broadly addressed the region's challenges and demonstrated concentration and coherence. However, a significant number of respondents asked whether Priority 3 (lifelong learning) could be subsumed within Priorities 1 and 2 (although there was strong counter-arguments put forward). There were mixed views on spatial targeting, some wanted it relaxed for Priority 1, other extended to the other priorities. There were also a number of concrete suggestions of eligible groups and activities that should feature in the priority descriptions.

The Executive welcomes the broad approval of the priority structure and the strategic focus. We believe that the case for a separate lifelong learning remains strong, but will adjust the allocations somewhat to give more funding to Priorities 1 and 2. The suggestions on revising eligible groups and activities will be examined seriously.

Comments were also made about the Programmes' fit with domestic and other EU policies. Respondents felt that more account should be taken of regional/local strategies as well as a number of major national strategies (particularly for tourism and the environment). In terms of parallel EU funding streams, more needed to be done to make Structural Funds complement the Scottish Rural Development Programme, the European Fisheries Fund, the new EU research funding programmes and other EU initiatives. The Executive accepted that strategic fit was paramount for the new Programmes – at regional and local as well as national level - and would provide more detail on how complementarity with domestic and EU policies can be achieved in the final Operational Programmes.

Horizontal Themes

Respondents welcomed the cross-cutting themes of environmental sustainability and equal opportunities and a number of concrete suggestions were made about putting the commitment to these themes into operational practice. With respect to environmental sustainability, the recommendations are part of the Strategic Environmental Assessment consultation and the Executive will set out final views on how to build on the Scottish legacy in these themes as part of the consultation to that response. For equal opportunities, we have conducted an equal opportunities assessment of the Programmes involving stakeholders. Their recommendations will

also inform the final shape of the Programme documents. A third cross-cutting theme – social inclusion – has been added for all programmes.

Delivery

On the delivery of the Programmes, respondents believed that the current system of competitive bidding was a strong foundation for the future – it should be ‘fine-tuned’ not ‘overhauled’. As a result, there was some wariness about the proposed use of Intermediate Delivery Bodies, particularly Scottish Enterprise, and respondents asked for greater control and monitoring of the bodies’ activities. Several suggestions were made for improving the challenge-fund approach, although several partners did not feel that partnership and minimum project threshold requirements should be introduced. The current structure of peer group appraisal and representative committees should be kept but with the creation of a single Programme Monitoring Committee for the two Programmes. A number of specific recommendations were also made regarding project appraisal and selection.

The Executive fully agrees with the need to preserve the key features of the current system while adopting it to an environment of reduced funding. Peer group appraisal should be maintained. Several of the specific suggestions on project appraisal are welcomed as is the suggestion of a single PMC for the region. However, while the Executive agrees that partnership should be encouraged and not required in project bids, it believes that a modest minimum project threshold across all priorities in the two Programmes will encourage more strategic, legacy projects and reduce the administrative burdens on partners.

With respect to Intermediate Delivery Bodies, the Executive will limit their use to Scottish Enterprise in the new Priority 1 and South of Scotland partners in the new Priority 4 and will ensure that their activities are closely monitored for performance. Projects put forward by both IDBs will need to secure PMC approval.

Stakeholders were also asked about the role of Community Planning Partnerships. Respondents felt that CPPs could make a positive contribution to the new Programmes, but there were numerous comments on how this could be achieved given the varying capacity of the bodies across the region. The Executive intends to fund a selection of CPPs for a pilot period of two years, but this will be limited to a pot of funding within ESF Priority 1 and the new ERDF Priority 3.

Targeting

The issue of geographical targeting of funding generated a considerable number of comments. Overall, partners acknowledged the value of some targeting given the reduction in funds, but there was little consensus over how it should be applied. In particular, there were concerns about the designation and distinction of ‘urban’ and ‘rural’ areas in the ERDF urban regeneration and rural development priorities. Some respondents argued that targeting should be more widely applied across the Programmes with resources directed towards areas of need within the region.

In reflecting on the responses, the Executive believes that spatial targeting should only be applied in ESF Priority 1 and the new ERDF Priorities 3 (urban regeneration) and 4 (rural development). For ESF Priority 1 and the new ERDF Priority 3, a limited list of Local Authority areas would be defined on the basis of areas set out in existing relevant Scottish strategies and the most deprived areas identified in the Scottish Index of Multiple Deprivation. For the new ERDF Priority 4, a limited number of Local Authority areas would be defined using the six-fold urban-rural classification, targeting those Local Authorities with a significant share of their population that are in areas with 'remote rural' or 'accessible rural' areas. Both lists would be updated annually to take account of changes in the eligibility criteria.

In addition, concerns were expressed at the proposal of ring-fencing funding for South of Scotland partners and the justification set out for the proposal. We remain convinced of the value of ring-fencing funding to support a limited number of large, strategic projects for this sub-region. This not only recognises the significant development challenges of the area but also the successful track record in making effective use of Structural Funds in the past and the area's clearly-articulated Competitiveness Strategy, which shows where Structural Funds can have an additional and significant impact.

ANNEX D: SUMMARY OF EX-ANTE REPORT

Summary of Report

Introduction

This report summarises the findings from the ex-ante evaluation of the 2007-13 ESF Operational Programme for Lowlands and Uplands Scotland, to be submitted with the final version. The structure follows the outline of key components as set out in the Commission guidance¹.

The full report will contain the detailed findings and reflect the changes and improvements to the programme which were made through the evaluation process.

Evaluation Objectives

Council Regulation (EC) 1083/2006 requires an ex-ante evaluation for each Operational Programme. According to Commission guidance the main concerns are to assess:

- Relevance – of the strategy to the needs identified;
- Effectiveness – whether the objectives of the programme are likely to be achieved; and
- Utility – judging the likely impacts against wider social, environmental and economic needs.

More specific evaluation questions for an ex-ante evaluation concern:

- internal and external coherence; and
- the suitability of implementation systems.

Evaluation Approach

Ex-ante evaluation is as much about the *process* of developing the Operational Programme as it is about the final report on the findings. The iterative and interactive nature of the process requires a close working relationship between evaluators and programme developers. Guided by the concern to maximise Community added value, the Hall Aitken ex-ante evaluation team worked closely with the Scottish Executive's Structural Funds Division to take the process forward. This involved:

- The Scottish Executive briefing the team of evaluators and providing documents and information necessary to carry out the work;
- The evaluators gathering and analysing data as it became available and providing their assessment in the form of comments throughout;
- The evaluators attending development and consultation workshops arranged by the Executive;

¹ European Commission *Indicative Guidelines on Evaluation Methods: Ex-ante Evaluation*, 2006

- The Scottish Executive responding to and implementing the evaluators' comments and recommendations; and
- Both teams meeting regularly to discuss progress and develop next steps.

Programme Priorities

The strategy of the 2007-13 Operational Programme for the European Social Fund has three priorities addressing different aspects of the Scottish labour market. A fourth priority – technical assistance - provides funding support for managing and administering the programme.

Figure 1: LUPS ESF priorities 2007-13

Priority	Aim
Priority 1 – Progressing into employment	To assist the co-ordinated progress of unemployed and inactive people of all ages towards sustainable employment
Priority 2 – Progressing through employment	To improve skills of the workforce to enhance employability, productivity, adaptability, inclusion and entrepreneurial expertise
Priority 3 – Improving access to lifelong learning	To widen access to post-school lifelong learning, particularly for key client groups

Relevance to the Scottish Labour Market

The starting point for the Operational Programme was an analysis of the Scottish labour market and – resulting from it – a number of key issues which ESF intervention could address. This chapter summarises our assessment of the conclusions drawn from the socio-economic analysis and how appropriate the chosen priorities are for addressing labour market issues.

Key Challenges

Figure 2 sets out the regional strengths, weaknesses, opportunities and threats the socio-economic analysis identified for Scotland.

Figure 2: SWOT analysis summarised from ESF Operational Programme

Strengths	<p>Good overall employment performance with employment rate at historical high</p> <p>Increased employment rates for major population groups, including more disadvantaged groups</p> <p>Rising skills levels and education participation rates</p> <p>Participation in education and training above EU-25 average</p>	<p>Acute worklessness problem – low relative employment rates for disadvantaged groups</p> <p>Geographical variations in employment rates (lowest in Glasgow at 65%)</p> <p>NEET group as particular policy challenge with high concentrations in Glasgow area</p> <p>Slow decrease in levels of incapacity benefit claimants</p> <p>Areas with concentration of worklessness as policy challenge</p> <p>Low relative employment rates among ethnic minorities</p>	Weaknesses
Opportunities	<p>Macroeconomic stability as foundation for future employment growth</p> <p>Clear standards through regulatory framework</p> <p>Scottish Executive commitment to new strategies on employment, regeneration and tackling NEET group</p> <p>High willingness to work if barriers are removed</p> <p>Entrepreneurship beginning to rise though still below EU-25 average</p> <p>New opportunities through influx of migrants</p> <p>Nature of regional economic problems offers scope for effective intervention through spatial and co-ordinated targeting</p>	<p>Economic climate and employment levels vulnerable to macroeconomic instability or change in interest rates</p> <p>Increased migration – challenge to turn migration into an opportunity for Scottish economy</p> <p>Ageing population</p> <p>Social attitudes among some groups within working population – gender equality issues</p>	Threats

Assessing Relevance

The evaluation team provided guidance, commentary and input to the socio-economic analysis from the very early stages. This process helped the analysis to:

- provide a clearer focus on some of the key issues where ESF resources could add value to existing activity;
- set out clearer evidence of need to underpin any interventions; and
- comment on previous experience through Structural Funds and other interventions.

Taking into account the objectives of the EU cohesion and employment policy, the socio-economic analysis identified several areas where the Scottish economy lagged behind the UK and other EU economies. The key challenges identified by the analysis, and therefore the key areas for potential intervention, were around:

- reducing the acute levels of worklessness in certain groups and areas through targeted intervention;
- improving employment rates among 'hardest-to-help' groups by improving 'soft' basic skills;
- sustainable employment measures that address both labour supply *and* demand issues;
- tackling equality issues;
- strengthening measures to increase entrepreneurial and social enterprise activity through developing appropriate skills; and
- increasing lifelong learning participation rates among the most disadvantaged groups.

These issues all relate to key aspects of the Lisbon agenda, through promoting greater knowledge based competitiveness and addressing the disadvantage that holds it back. They support ERDF activity by developing skills for increasing coherence of the labour market.

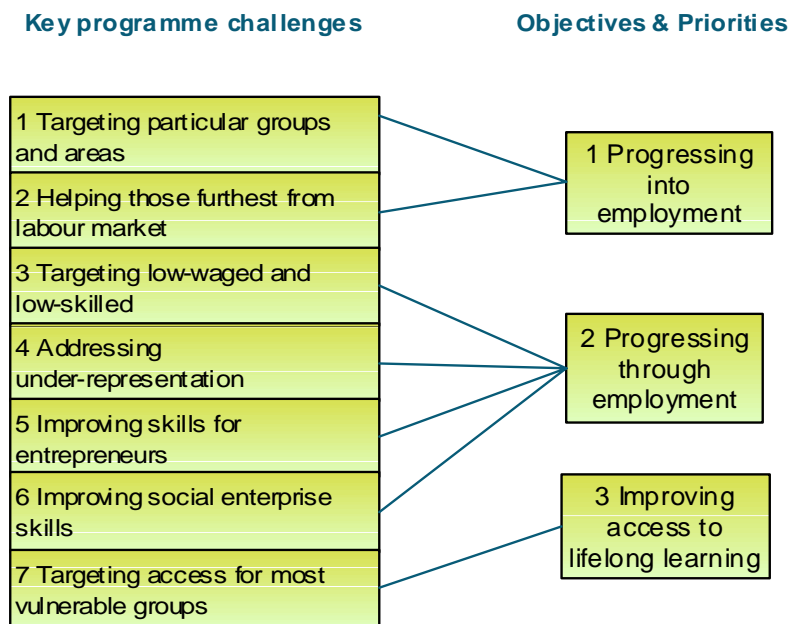
The priorities identified to address these key weaknesses have been developed to make sure that while they support and link with existing domestic policies and programmes, they clearly add value by filling gaps in existing provision. The priorities are relevant to addressing the needs identified through the socio-economic analysis.

Evaluating the Rationale and Consistency of the Strategy

The ESF Regulation emphasises that ESF resources are targeted at the most important needs in order to bring about significant effects. This section gives an overview of the strategy within the ESF Operational Programme and summarises our assessment of how appropriate this strategy is.

Figure 3 below shows the links between the key challenges identified through the socio-economic analysis and the programme objectives. Each objective is addressed through one single priority.

Figure 3: Addressing key challenges through the programme



The overall strategy provides a clear and logical approach to addressing labour market issues by removing barriers within the workplace (demand-side measures) and addressing skills and employability issues within the workforce (supply-side measures). The interventions flow from a wide body of evidence regarding successful approaches to engaging hard to reach groups and overcoming multiple barriers.

The Executive has looked at existing interventions and possible alternative actions to identify where ESF funding can add most value. The tightness of the Scottish labour market identified in the socio-economic analysis requires a strategy that focuses on widening and up-skilling the workforce. This will require actions aimed at both the pre-employment stage and within the workplace. Pre-employment employability measures can justify public intervention because they require a high level of tailored support and a multi-agency approach that is difficult to provide through mainstream measures. And workplace training and development is widely identified as a market failure due to the blurred nature of the benefits to the employer, the individual and the wider economy. Improving workforce skills can be regarded as a public benefit in meeting the Lisbon objective of a more highly skilled and competitive workforce.

The three priorities provide a relatively coherent strategy to address the issues highlighted by the socio-economic analysis. The first two priorities have clear and complementary roles in addressing the barriers to entering the labour market and in developing wider skills within the workplace. The third priority on lifelong learning will need to be clearly directed at developing learning capacity that focuses on overcoming barriers and widening access (over and above any measures supported through Priority 1). It should also be clear that the learning

infrastructure and outcomes being funded under Priority 3 will help to meet the needs of the labour market (rather than simply learner's needs) in order to meet Lisbon objectives.

This approach will ensure that the three priorities are complementary and that there is no conflict or confusion between priorities.

Assessing Strategic Coherence

This chapter looks at the programme strategy in the context of policies at EU and Scottish level. The Community Strategic Guidelines set out priorities at EU level the strategy needs to support and contribute to achieving the Lisbon objectives. The ex-ante evaluation mapped the priorities of the 2007-13 ESF Operational Programme for the LUPS area against these and the key domestic policies to assess strategic coherence. This analysis justifies the choice of priorities in the light of these context priorities and the Operational Programme clearly shows where the links are. The strategy chosen also takes account of lessons learned from previous relevant programmes.

Figure 4 below summarises how programme priorities will support the relevant priorities of the Community Strategic Guidelines and the Integrated Guidelines for Growth and Jobs, as well as the recommendations of the most recent update of the European Employment Strategy.

The priorities of the 2007-13 Operational Programme fit with the relevant policies at UK level, such as the National Employment Programme and the New Deal initiative. They also support the aims the UK Government has set out in its National Reform Programme.

The UK National Strategic Reference Framework explains how the UK – and Scotland – will use Structural Funds to achieve the Lisbon objectives. The strategy in the ESF Operational Programme links into the NSRF logically.

At Scottish level, some key strategies set the policy direction for labour market interventions. The overarching strategy for developing the Scottish economy is the Framework for Economic Development in Scotland (FEDS) and the new ESF priorities are relevant to its key outcomes. The ex-ante evaluation also looked at strategic fit with:

- Workforce Plus – an Employability Framework for Scotland;
- Closing the Opportunity Gap;
- Regeneration Policy Statement;
- NEET Strategy – More Choices, More Chances;
- Smart Successful Scotland; and
- Lifelong Learning Strategy.

EU priorities	Support through LUPS ESF priorities for 2007-13
<p>Community Strategic Guidelines – broad guidelines</p> <p>Making Europe and its regions more attractive places to invest and work</p> <p>Improving knowledge and innovation for growth</p> <p>Creating more and better jobs</p> <ul style="list-style-type: none"> • Attract and retain more people in employment and modernise social protection systems • Improve adaptability of workers and enterprises and the flexibility of the labour market • Increase investment in human capital through better education and skills • Administrative capacity • Help maintain a healthy labour force <p>Taking account of the territorial dimension of cohesion policy</p>	<p>Addressed through activities related to improved working conditions under Priority 2 (progression routes and gender equality)</p> <p>Addressed through activities related to skills development under Priorities 2 and 3</p> <p>Priorities 1 and 2</p> <p>Priorities 1 and 2</p> <p>All priorities, but mainly Priority 3</p> <p>Addressed through technical assistance</p> <p>Indirect support through all priorities</p> <p>Priority 1 addresses the need for an urban dimension</p>
<p>Integrated Guidelines for Growth and Jobs – 7 out of 24 are relevant:</p> <p>17. Implementing employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion</p> <p>18. Promote a lifecycle approach to work</p> <p>19. Ensure inclusive labour markets and work attractiveness, and make work pay for job-seekers (eg. disadvantaged/inactive people)</p>	<p>Priorities 1 and 2</p> <p>All priorities</p> <p>Priorities 1 and 2</p>

<p>20. Improve matching of labour market needs</p> <p>23. Expand and improve investment and training systems in response to new competence requirements</p> <p>24. Adapt education and training systems in response to new competence requirements</p>	<p>Priorities 1 and 2</p> <p>Priority 3</p> <p>Priorities 2 and 3</p>
<p>European Employment Strategy 2004 recommendations for the UK</p> <p>Ensuring that wage trends do not exceed productivity gains</p> <p>Ensuring that active labour market policies and benefit systems prevent de-skilling and promote quality in work, by improving incentives to work and supporting sustainable integration and progress in the labour market of inactive and unemployed people; addressing the rising number of people claiming sickness or disability benefits, and giving particular attention to lone parents and people living in deprived areas</p> <p>Improving the access to and affordability of childcare and care for other dependants, increasing access to training for low paid women in part-time work, and taking urgent action to tackle the causes of the gender pay gap</p> <p>Implementing national and regional skills strategies, with particular emphasis on improving literacy and numeracy of the workforce, the participation and achievement of 16-19 year olds, and low skilled workers in poorly paid jobs</p>	<p>Not addressed through 2007-13 programme</p> <p>Activities under Priorities 1 and 2 address this</p> <p>Activities under Priorities 1 and 2 address this</p> <p>All priorities have a link to these issues</p>
<p>EU common objectives on social protection and inclusion</p>	<p>Mainly addressed through Priority 1</p>
<p>EU education and training objectives</p>	<p>Mainly addressed through Priority 3</p>

Figure 4: Mapping OP priorities against EU priorities

Figure 5 below shows that OP priorities are in line with these strategies and where the links are:

Figure 5: Fit with Scottish strategies

Strategy	Priority 1	Priority 2	Priority 3
Workforce Plus	x	x	
Closing the Opportunity Gap	x	x	x
Regeneration Policy Statement	x	possibly	possibly
NEET Strategy	x	x	x
Smart Successful Scotland	x	x	x
Lifelong Learning Strategy	possibly	possibly	x

Ensuring Equality

It is a major concern of the European Commission that programmes are designed in a way that ensures equality between men and women and non-discrimination. Building on lessons from the 2000-06 Objective 3 Programme, the Scottish Executive has made equal opportunities a horizontal theme underpinning all aspects of the 2007-13 ESF programme. More specifically, this is done by

- Targeting specific groups under Priority 1;
- Funding activities that address equality issues; and
- Mainstreaming of equal opportunities into programme processes, including the use of designated equal opportunities champions in committees and representation in committees themselves.

The selected programme indicators and targets will help with implementing the equal opportunities objectives, in line with Commission regulations.

Financial Resources

The relative allocations across the Priorities have been the subject of detailed consultation and discussion with key stakeholders. The proposed allocations reflect the extent to which ESF resources can address current gaps and weaknesses, and therefore add value to the domestic investment. Most funding has been allocated to the first (44.9%) and second (36.9%) priorities which reflects the key weaknesses identified in the socio-economic review. The biggest allocation towards the employability measures is justified given the level of intervention that is likely to be needed to move these target groups nearer to the labour market.

The financial allocations were based on unit costs of the different interventions developed through data from the Annual Implementation Reports and the EKOS Beneficiaries Survey. Some unit costs are clearly easier than others to quantify and others are perhaps more difficult to accurately put a cost against.

Spreading funding allocations almost evenly across the whole funding period 2007-13 carries certain risks in terms of sustainability and the n+2 rule. Ideally funding would increase considerably after the first year and decrease gradually from there towards the end in 2013. Only then supply would be in line with demand. It would encourage projects to develop exit strategies and prepare for operating without Structural Funds. It would also be a better response to lessons learned from previous funds regarding n+2. The Executive does not control overall annual allocations as the European Commission determines these. However, flexible intervention rates may offer scope for lowering risks.

Quantification of Objectives: Indicators and Targets

The Operational Programme identifies a set of output, result and impact indicators. This section gives a brief overview of how the indicators were developed before providing the ex-ante evaluators' assessment of how appropriate the indicators – as well as related targets – are.

The Scottish Executive commissioned a study that aimed to identify a suitable set of indicators and targets for the 2007-13 programmes. The specification for the research took into account lessons from previous programmes by stressing that this set of indicators would have to be scaled down and simplified compared to existing ones. As ex-ante evaluators we attended and contributed to two workshops that were part of the development process. However the approach taken - whereby indicators were developed in advance of activities - has not benefited the quality or relevance of the indicators.

The results of the process needed further refinement to make the indicators appropriate for effectively measuring progress *and* meeting Commission requirements. This summary report sets out our comments on the near-final version of programme indicators and makes some recommendations.

Experience from previous programmes has shown projects do not benefit to any great extent from the data collected, so the indicators are designed to be the minimum required to monitor the programme. Where more detailed, or different, indicators are required (for example by Annex XXIII) these should relate back through the programme to support its delivery, and integrate with national and regional strategies.

The indicators chosen do reflect the activities that will take place under each priority, so there is a distinct logic behind their choice – a causal chain that runs through the programme.

There are practical difficulties associated with tracking beneficiaries post-intervention which mean that much of the longitudinal data will have to be collected at programme level, rather than by individual projects.

These difficulties are a lesson learned from previous programmes and addressed in the choice of indicators. This is a positive result for the programme as it will yield more reliable data over time and reduce the onus on projects to track beneficiaries that they may have no dealings with.

Some work needs to be done in determining how some of the data for the indicators can be effectively collated, and the information fed back to projects, programme managers and other stakeholders. There are potential problems with administrative burden of Annex XXIII; and the problem of setting targets for groups or achievements that are not measured. But all indicators should be assessed to see if baseline work is needed at this stage.

The main question is the use of current unit costs for a programme that will continue to deliver to 2013. If the programme is trying to drive down unit costs then this is a reasonable basis for calculating targets, but delivery agents should be told that they will have to be more efficient (in line with the reduced TA allocation). But if we assume that costs will rise in line with Treasury inflation estimates, then we need to discount the targets by around 2% per annum. Otherwise the targets are unattainable because the unit cost in year 7 will be 12% greater than in year 1.

Targets need to be assessed for achievability across the programme, because the demand curve for projects is different from the supply curve (actually straight line) of resources. So at all times there is likely to be a disparity between demand and supply that must have an effect on targets.

There is also a question over whether the £200k project threshold will have an effect on targets, as larger more strategic interventions are being encouraged. But it is not clear what impact this change will have on delivery.

ESF Priority 1

The suggested indicators for ESF priority 1 combine several output indicators which are based on a count of participants along with two 'result' indicators which focus on hard outcomes (jobs and qualifications). These reflect the core requirements for EU monitoring purposes. However the final indicator for this priority also aims to identify soft outcomes or 'distance travelled'. This reflects a growing recognition that for many of the hardest to reach groups being targeted under this priority, a sustainable job is not a realistic prospect in the short to medium term. However the reference to 'sustainable employment' may be a difficult one for projects to operationalise, particularly given the flexible nature of the labour market. For many within these target groups moving into mainstream training or educational provision would be an extremely positive outcome. The Executive will need to provide clear guidance as to how this will be measured.

The targets for this priority are based on the most up to date research, or the best proxy, which is valid. The scale of targets means that the

interventions are of an appropriate scale for the target sectors/ areas from the socio-economic analysis, providing a reality check.

ESF Priority 2

The indicators for Priority 2 are a similar combination of the numbers of participants among lower skilled groups split down by gender, and the numbers gaining skills at level 2 and level 3. However the indicator should be the numbers gaining skills at Level 2; rather than at Level 2 *or below*.

The impact indicator for this priority is the number of participants who progress into 'more sustainable or better employment'. However these concepts may again be difficult to operationalise or gather through an evaluation. It may be clearer to use measurable concepts such as 'more secure' or 'higher skilled' employment. Security of employment can be measured through whether someone has a permanent contract as opposed to a temporary, casual or self-employed arrangement. Skill levels of jobs can be identified through surveys or earnings could be used as a proxy.

The impact indicator of net number of participants entering employment is not particularly relevant given that this priority largely focuses on workplace training to improve skills among employees. This indicator should perhaps be explicitly deployed towards the groups being targeted for labour market re-entry such as females and older people returning to the workplace. Again, an indicator that measures the skill level or productivity associated with a job might be more relevant for this priority.

The indicators for gender balance projects focus solely on number of project participants. The Executive should consider whether an outcome or impact indicator for this part of the priority is feasible. This may for example involve identifying whether participating workplaces have improved their gender balance, in terms of pay, job levels or job types.

The indicators identified for promoting enterprise and social enterprise skills combine output, result and impact indicators and appear appropriate to measure progress.

There is a reasonable logic to the way the targets have been calculated. It will be important that programme managers should keep an eye on the outputs and results as things progress.

ESF Priority 3

There is a danger of duplicating the indicators for Priority 1, given the very different activities carried out under Priority 3, and the lack of causal link between the activity and outputs. Priority 3 is about capacity building rather than volume of throughput and indicators and targets need to reflect the increased capacity. The indicators and targets should reflect the funded activity (certainly for outputs and results) although the impacts could reflect improvements in, for example, educational attainment, even numbers of participants. There is also the problem that the previous Objective 3 programme also found this an almost impossible task.

Given the lower allocation to this priority and the large scale of projects, targets are going to be small and will need to be fairly specific. Appropriate indicators are going to be very difficult to identify in advance of any projects being selected, particularly if they are large projects. Indicators might then include:

- Number of courses/ materials developed;
- Number of pilot projects;
- Number/ distribution of delivery locations for courses;
- Increased quality of courses/ materials, such as quality accreditation from SQA, or workplace quality systems that lead to improved on the job training;
- Number of trained trainers or assessors;
- Number of new/ innovative delivery models (consortia, partnerships, new approaches to education supply chain);
- Number of colleges, institutions, learning centres delivering the materials – that is dissemination of new materials, licensing, marketing and communications and so on.

Implementing the Programme

This section summarises the quality assessment of the different aspects of the programme implementation system. The assessment takes into account lessons learned from previous programmes and stakeholder feedback from the consultation process.

The Scottish Executive as Managing and Certifying Authority will work with the newly appointed Intermediate Administration Body (IAB) for the LUPS area to implement the ESF and ERDF programmes. They will use a combination of challenge funding and direct allocations of block funding to a number of Intermediate Delivery Bodies (IDBs) to deliver elements of the programmes. The IDBs are existing domestic delivery organisations who will support specific major projects.

The mix of challenge and block funding was identified as the most suitable approach for Scotland through in-depth research, including a comparative study across the EU and stakeholder consultations.

To minimise negative effects of a delayed programme start date a 'shadow funding round' was run for projects supporting vulnerable client groups.

Intermediate Administration Body

The Executive selected the IAB through an open tendering process. Unlike in previous funding periods, one single body will be responsible for managing and administering the ESF *and* the ERDF programme. This arrangement is likely to ensure better co-ordination and integration of EU-funded activities – as recommended in previous evaluations. This is particularly important considering the increased focus on strategic fit for the 2007-13 period.

At tendering stage, the Scottish Executive set out the tasks and key duties of the IAB, as well as a set of key criteria against which the body's performance will be measured. The latter cover:

- Application processing;
- Claims processing;
- Project monitoring;
- Management reporting;
- Communications; and
- Secretariat functions.

The performance criteria and the targets seem appropriate for effective delivery. The requirements as outlined in the tender document, reflect a shift of the IAB's focus from a purely administrative role to more project support and development. This had been an issue from stakeholder consultations, particularly in the face of smaller project numbers that result from lower funding levels. As well as setting clear quality criteria, the tender document left some scope for contractors' judgement on the most effective way to implement processes.

The successful tenderer – ESEP - has been the Programme Management Executive for the East of Scotland Objective 2 Programme for some time. Building on this experience the organisation is well placed to carry out the role of IAB effectively.

Considering the length of the funding period, it seems appropriate to limit the contract with the IAB to three years initially. After that the Scottish Executive will decide on extensions on an annual basis.

Intermediate Delivery Bodies

The principles and criteria the Executive has been applying when selecting IDBs seem appropriate. The approach is ring-fencing money and allocating it to a number of partnerships to fund strategic projects. In selecting appropriate Community Planning Partnerships to pilot the Priority 1 measures, the Executive should consider their track record of effectiveness in delivering against their existing Regeneration Outcome Agreements.

Procedures

Procedures for dealing with applications and claims seem appropriate. Particularly plans to introduce a two-stage application process, which many stakeholders had called for, will improve efficiency. Projects unlikely to receive funding can be filtered out. We recommend that the IAB should provide advice and support for organisations producing their project outlines. Target timescales for processing are likely to ensure smooth running and prevent 'n+2 risks'. Projects will be appraised by appropriate committees who will provide the necessary knowledge and experience but also strategic direction.

The Scottish Executive has an online application system that will be used for project applications and claims across programmes. The lack of

such a system had been a point of criticism in previous programme evaluations. The system will ensure consistency and many organisations will already be familiar with it.

The evaluation strategy for the 2007-13 programme will follow a similar structure to that used for the 2000-06 programme but take into account recommendations from previous evaluations, most importantly the mid-term evaluation of the Objective 3 programme. One key recommendation was to undertake more monitoring visits. The new monitoring plan envisages monitoring visits to 10% of volume as well as 10% of value of all projects which is in line with EU regulations and seems appropriate. The IAB is responsible for these visits which cover challenge fund *and* non-challenge fund projects. The Scottish Executive, in turn, will carry out detailed monitoring visits to the IAB as well as verification and compliance visits to a percentage of projects. It is important that distribution of funds across geographies and sectors is monitored, as recommended in the Objective 3 mid-term evaluation. Overall monitoring and evaluation provision, including reporting arrangements, seem appropriate.

The administrative burden the programme entails is – to a large extent – the result of Annex 23 of the Commission Regulation setting out implementation rules², which asks for very detailed breakdowns of ESF participation figures. However, the Executive has taken steps to reduce administration requirements while following the regulations, such as a reduction of IABs. The threshold for minimum project size, a planned 2-stage application process and a move towards multi-year funding also offer opportunities for reducing the administrative burden, so does the Executive's encouraging of partnership working.

A communications strategy underpins communication between the Scottish Executive and the IAB and any publicity on the programmes. Marketing and PR channels are clear with the Scottish Executive's Structural Funds Division acting as the Managing Authority's contact point. We recommend putting increased emphasis on dissemination of good practice, for example by setting up a searchable project database.

The Role of Partnerships

The implementation arrangements offer opportunities for constructive partnership working where appropriate and the Operational Programme itself was developed through a partnership approach. The Programme Monitoring Committee as a key body for delivering the programme will reflect this through its membership.

Whether partnerships at project level should be a requirement for delivering the new Structural Funds programme has been the subject of many lengthy discussions. Stakeholders agreed that certain elements of partnership working could benefit project success but downsides included potential disparity of power and costs of developing and managing partnerships. The Scottish Executive has taken the approach

² Corrigendum to Commission Regulation 1828/2006

of encouraging but not prescribing partnership working which provides some flexibility in that partnerships are likely to be used where appropriate. We recommend that good practice from EQUAL Development Partnerships should become an integral part of project guidance and other publicity and support materials.

Risk Appraisal

Figure 6 below summarises the main risks we have identified in the context of programme implementation.

Figure 6: Summary of risks from implementation provisions

Risk	Recommendation
IAB does not meet performance criteria and Managing Authority decides not to extend the contract	Closely monitor performance and develop alternative strategy if necessary
IAB has more experience of managing ERDF – gaps in knowledge and experience	Ensure staffing profile reflects the wider remit
IAB is biased towards its traditional geographic area	Management group should be broadly representative of all parts of the LUPS region and application processes transparent and accountable.
IAB does not have the right staff and skills in place over time	IAB should develop an appropriate workforce plan that will minimise the risks of staffing problems; particularly towards the end of the contract period.
CPPs turn out to be unsuitable as IDBs	SE should pilot this approach initially to highlight any issues with the delivery capacity and effectiveness of CPPs. A robust evaluation framework should be developed for the pilot.
Lack of awareness among advisory groups and project sponsors of targets, indicators etc.	Have a robust communication strategy in place that covers how various players will be informed and updated.
Monitoring is less consistent for projects funded through IDBs.	A requirement to report against a small number of core indicators should be part of the commissioning process.

Conclusion

The final version of the 2007-13 ESF programme for Lowlands and Uplands Scotland is the result of a process of extensive consultation, as well as interactive and iterative working between the Scottish Executive and ex-ante evaluators. We consider the Operational Programme and its provisions fit for using ESF money effectively to address existing market failures and adding value.

More specifically, we can confirm that:

- A socio-economic analysis of the area was undertaken that meets the requirements of Commission guidance;
- The programme has a valid and consistent strategy so priorities and their eligible activities address the needs identified by the socio-economic analysis;
- The strategy is strategically aligned with the Lisbon Strategy and relevant strategies at EU, UK and Scottish level;
- The implementation system is suitable for delivering funds effectively;
- Lessons learned from previous interventions have been taken into account; and
- The programme addresses the horizontal themes – equal opportunities, environmental sustainability and social inclusion – through its various aspects.

We have made some final recommendations on indicators, financial allocations and numerical forecasts for the Executive to consider in the Operational Programme they will submit to the European Commission.

Executive Response to Final Ex-Ante Evaluation Report

The ex-ante evaluation process has been a highly valuable, iterative process that has resulted in continual improvements to the quality of programme development and the final Operational Programme. Recommendations have been made on – and responded to – the different drafts of the Programme by the evaluators. Consequently, while the above summary represents the final set of comments by evaluators, it does not fully capture the process of dialogue that has marked the process as a whole, resulting in a higher quality Programme.

The Executive has taken on board the final recommendations by the ex-ante evaluators in the completion of the Programme.

ANNEX E: EQUAL OPPORTUNITIES IMPACT ASSESSMENT

Background

1. All public authorities in Scotland have a statutory general duty to promote Equal Opportunities and prohibit discrimination in the exercise of public functions under the Equality Act 2006. This means that listed public authorities must have due regard for the need to:

- eliminate unlawful discrimination;
- promote equality of opportunity, and
- promote good relations between people with different equality barriers.

2. In addition to the general duty, Scottish Ministers have used their powers to make a statutory order placing more specific duties on the Scottish Executive and other public authorities. The specific duties require these bodies to undertake an Equality Impact Assessment when introducing new policies, or changing existing policy in a significant way. This will entail:

- assessing and consulting on the likely impact of the policies they are proposing to adopt;
- monitoring any adverse impact of their policies;
- publishing the results of their assessment, consultations and monitoring; and
- ensuring public access to the information and to services arising from the Policy

3. In recognising this duty, the European Structural Funds Division within the Scottish Executive needs to ensure that the implications of the changes proposed in the new round of European Structural Fund Programmes have been thoroughly assessed from all aspects of equality as part of the consultation and development process.

Deciding on the need for an Equality Impact Assessment

4. All Departments within the Scottish Executive play a part in determining and contributing to Scottish Economic Development. Our approach is set out in the *Framework for Economic Development in Scotland (FEDS)*. This sets out an overarching vision to raise the quality of life of all the people of Scotland through increasing the economic opportunities for all on a socially and environmentally sustainable basis – and defines the Executive's economic objectives.

5. From 2007 to 2013 Scotland will again benefit from European Structural and Cohesion Funds to support social and economic development. Agreement on the EU budget was finally arrived at in December 2005, and the share of regional aid for each Member State decided. With enlargement has come re-direction of EU funds towards the new Member States. Scotland, like many other Member States and regions of Europe, will receive

significantly reduced levels of funding which for the new programmes will amount to less than half of the amount available under the previous 2000 to 2006 programmes.

6. The reduced funding has required Structural Funds programmes to be more targeted than ever before, focusing not only on activities which have the highest value added, but also those which will leave an economic development legacy in Scotland post-2013.

7. Following the Scottish Executive guidance, we considered whether we needed to undertake an Equality Impact Assessment covering gender, race, age and disability aspects of equal opportunities.

8. Although similar assessments were undertaken in England, Wales and Northern Ireland, only in Scotland did we decide to go down the route of a full Impact Assessment. The other regions decided that the underlying economic development policy had not changed and therefore no Impact Assessment was required.

The impact assessment process undertaken in Scotland

9. The steps taken to assess the impact of the change in the new European Structural Funds Programmes were as follows:

i). **An Equal Opportunities Working Group** was pulled together to advise on the Scottish European Operational Programmes' content and the delivery mechanism. It met for a full day on 29 March 2006 at the Scottish Executive's Offices in Glasgow. The workshop attendees came from the Voluntary Sector, Ethnic Minority Community, Business, Academic, Local Authorities, Single Issue Groups and the Programme Management Executives for the 2000 to 2007 programmes. The actions arising are summarised below.

ii). At its meeting on 26 April 2006 the **European Structural Funds Equal Opportunities Forum**, which meets twice a year to advise on equal opportunity aspects of the current programmes, was asked for a view on the outline of the new programme and the elements we should consider in an Impact Assessment. The actions arising are outlined in section 12.

iii). As part of the **EQUAL Initiative's Good Practice Event** in Scotland on 13 September 2006 views were canvassed by the Head of the ESF Objective 3 Managing Authority on adverse impacts which emerging proposals for the new programmes might have on particular groups. The actions arising are outlined below.

iv). **A joint meeting of the Equal Opportunities Forum and the Impact Assessment Working Group** was held on 22 November 2006 at the Scottish Executive Offices in Europa Building, Glasgow. This was timed to coincide with the formal consultation period which ran from October 2006 to 8 January 2007. This meeting mainly focussed on the Consultation from an Equal Opportunities view point with regard to the new Programmes. A series of

questions, based on those in the formal Consultation were asked, which again informed the final draft programmes and the delivery process. Representatives were invited from a wide range of equality groups in addition to the usual Equal Opportunity Forum members, however attendance was low. The reason for this may have been that there had been extremely good input from a wide range of bodies in the initial stages, and their views had been taken into account in the development of the draft which had been published and was then at the formal consultation stage. Some bodies may have preferred at that stage to enter a view as part of the formal process registering their input in that way.

v) We therefore proceeded to contact those absent from the Forum and the Workshop in order to obtain their views and feedback from the questions relating to the consultation. We tried this in various forms, e-mailing, suggesting meetings at our offices or for us to go to their offices, asking for feedback either by telephone or by e-mail. Again the response was poor so we considered that we should approach some individuals to ensure we had a wide enough spectrum of views at this later stage. Further responses from the Disability Rights Commission and the Empower Theme B EQUAL Initiative Development Partnership were received, and these also informed the assessment.

vi) The European Structural Funds Equal Opportunities Advisor produced a list of the key research documents which helped with the evidence base for some of the analysis incorporated into the early Operational Programme proposals.

Formal Programme consultation summary of responses on equal opportunities

10. One of the items specifically consulted on from October 2006 to January 2007 was equal opportunities. 68 respondents addressed the issue of equal opportunities under Question 10.35:

i) Of the 68 respondents who answered, 52 positively welcomed the approach to equal opportunities in the operational programmes or thought it was well integrated as a horizontal theme. Five felt that it was unclear how equal opportunities would be implemented or that they needed more information before commenting, in one case, referring to the forthcoming Equal Opportunities Impact Assessment being developed by the Scottish Executive. One respondent felt that it was not well integrated stating that the design of the delivery system at the outset of the process negated the impact of equal opportunities as a horizontal theme as many equality groups were supported by projects run by the voluntary sector which they felt may have more limited access to funds under future programmes. Eight respondents, while offering comments in response to the issue of equal opportunities, did not specifically comment on whether the principle was well integrated into the programmes.

ii) A number of specific comments were made in relation to equal opportunities. These are summarised below:

- respondents felt that the programmes still placed too heavy an emphasis on gender equality and wanted more consideration of race and disability issues in line with recent legislation and public sector guidance. Specifically, it was also suggested by one respondent that ERDF Priority 2 should take account of access issues for disabled people when providing funding for refurbishment of learning and training centres. Another respondent also thought that the programmes failed to highlight the significant discrimination faced by disabled and the most disadvantaged groups in accessing learning and employment.
- It was suggested by four respondents that corporate social responsibility also be integrated as a horizontal theme, requiring businesses in particular, to provide employment to the socially excluded.
- A number of respondents emphasised the importance of the new programmes building upon the experience and expertise of the 2000-06 programmes (seven respondents). In particular the importance of integrating equal opportunities into the application, evaluation and monitoring processes was highlighted by four respondents who emphasised that appropriate weighting should be given to the issue in the selection process. Two respondents also emphasised the need to continue the role of an equal opportunities champion to monitor progress in implementing equal opportunities into the programmes. Clear guidance and support would need to be available to ensure that organisations are aware of their responsibilities with regard to equal opportunities legislation, including the recent, Age Discrimination Legislation, and the impact this may have on project impact and delivery. One respondent suggested that the mid-term evaluation report should monitor equal opportunities and implementation and seek adjustments if no progress is being made.
- Two respondents welcomed the integration of equal opportunities but felt that this should not be pursued to the detriment of other good projects. One also suggested that this should be monitored to ensure that this was not funding “more of the same” from the current programmes.
- Ten respondents for the South of Scotland welcomed the integration of equal opportunities and highlighted that this was in line with the South of Scotland Competitiveness Strategy.
- One respondent felt that lack of spatial targeting could affect the implementation of equal opportunities.

- Finally another respondent referred to the approach under LEADER+ and suggested that equal opportunities should be built into an approach that also considers community and economic sustainability.

11. All the above was discussed at an Equal Opportunities Steering Group, which consisted of the Chair and Secretary of the Structural Funds Equal Opportunities Forum plus Paul McFadden and Karen Armstrong of the Scottish Executive and Emeric Heydel, a French Intern serving an internship with the European Structural Funds Division. This Group identified the equal opportunities issues which needed to be addressed in redrafting the programmes before the final proposals went forward to Ministers in March 2007.

So what changed because of the Equal Opportunities Assessment?

12. First of all, in January 2006, when we were just starting to discuss the broad outlines of the areas on which European Regional Funds should be spent from 2007 to 2013, particularly in the Equal Opportunities workshop in March 2006, it was emphasised to us that equal opportunities had to be at the core of the new programmes. If we were serious about economic development and closing the opportunity gap going together, we had to build all aspects of equality in from the start. It should not be an add on, nor should a small piece of the funds be set aside to address equality issues, as Priority 5 had been in the ESF Objective 3 Programme for 2000 to 2006.

13. Officials started off talking generally about funding going to disadvantaged individuals and groups. However, it was emphasised by a number of our contacts that, although it was important to fund projects which helped underrepresented groups get into the labour force and progress and develop in the workplace, we should recognise in the wording used in the Operational Programmes that the barriers faced could be due to discrimination and ignorance as well as disadvantage or lack of skill. The early drafts took this point on board, not just in terms of wording, but also when thinking about the types of strategic projects which would be funded in the new programmes.

14. There was early general agreement that Equal Opportunities should be a Horizontal Theme for each of the four Scottish Programmes. This meant that every project to be funded would have to show how it intended to address equal opportunities across all aspects of the project, including recruitment of beneficiaries, and access to the development or business opportunities provided. The other Horizontal Theme on which there was general agreement was Environmental Sustainability. However, during the Impact Assessment and the formal consultation period, it became clear that there was some reading of Equal Opportunities as being in effect Social Inclusion. Officials decided to make sure that the role of Equal Opportunities in the programmes was clear by adding in Social Inclusion as a third Horizontal Theme to be addressed, and the wording in Chapter 8 on Equal Opportunities was tightened up to make clear what was expected.

15. Monitoring of how the programme was performing to assist the under-represented groups who should be better represented in terms of the Programme funding was emphasised. It was clear that some of the previous programmes had had such a large number of projects running, that it had been impossible to gather satisfactory information to monitor performance for particular target groups. It was therefore important to ensure that the new programmes had fewer, more strategic projects which were carefully monitored. Calls for projects aimed at particular sections of society, or groups of people facing specific barriers could then be made to ensure that minority groups were not overlooked because they had less expertise in accessing European funding when competing with other 'old hands'.

16. There was general, but not universal agreement that larger more strategic projects were likely to have more impact on issues such as the pay gap, gender under-representation, and employer attitudes. However, most felt it was important for all partnerships to be covered by the Equalities Duty, including Community Planning Partnerships, and that again monitoring and evaluation of the equal opportunities aspects of all partnerships would be required. When putting local partnerships together specific action might be required by the new Intermediate Administration Bodies (IABs) to ensure that some smaller less engaged groups which may get a negative press are included where appropriate, for example groups working with those suffering from mental health problems, or gypsies.

17. Some people commented that there was a need to move away from using case studies, instead identifying how organisations changed, what processes allowed these changes and in particular how attitudinal change was achieved in organisations. A key lesson to be learned is to build on individual commitment to equal opportunities and commitment at an organisational level to take equal opportunities forward beyond individual projects. The Equal Opportunities Adviser for the last programmes had prepared a Report looking at the processes and key elements of projects which are successful at mainstreaming equal opportunities, and this will still be used to revise the current Structural Funds Equal Opportunities Good Practice Guide. However, for the new programmes, Structural Funds Division will take more responsibility for ensuring that equal opportunities are addressed by having Champions for specific client groups and for the horizontal themes among the case officers with portfolios of projects to monitor.

18. It was agreed that the reduced level of funding required more targeting of funds on projects which can make a real impact. A number of possible ways of targeting were proposed. The bulk of those taking part in the Equal Opportunities Impact Assessment were in favour of minimum project size, although they felt that £1 million would be too large as a minimum project size, and the final decision was to have a £200,000 minimum project size for the LUPS area, and none in the H&I area. They also thought that the funds should be aimed at those facing multiple barriers including discrimination, and needing significant help to contribute to economic development. Generally special targeting was welcomed, although there was a feeling that thematic

targeting should also be considered – particularly mentioned were the young NEET group, ex-mining communities, low paid female workers, ethnic minorities and asylum seekers. The eligible areas for ESF Priority 1 and ERDF Priority 3 in the LUPS area should be those which are already prioritised by the Executive in strategies such as the Regeneration Policy Statement, Workforce Plus, Closing the Opportunity Gap, and the NEET Strategy, and this was added into the operational draft Chapter 4. The key target groups in Chapter 4 were also revised to take account of some of these comments.

19. Equal opportunities has become a key appraisal issue when considering which projects should be assisted. There will be more rigorous scoring of this element so that projects are not being assisted simply by making a good Equal Opportunities statement. Each project will be asked to benchmark itself at the outset of the project, and state where it will have moved to at the end of the project activity. It must show that it has built in equal opportunities as a key part of the project, and be able to show the sustainability of these changes in the organisation or partnership. Conditions could be added to the offer letter where appropriate requiring better monitoring of minority participation and the impact of the project on these groups. This will be monitored by the IAB during the project's lifetime.

20. When the new operational programmes are approved and start, the Programme Monitoring Committee will be asked to consider having a new Equal Opportunities Forum with a more representative membership, and a reviewed remit.

21. Projects based on the EQUAL Initiative model with a large Lead Partner and a number of smaller organisations delivering the activity will be encouraged by the IAB as these organisations often have excellent active equal opportunities policies. This could range from projects for a number of different voluntary organisations working with the same target group, to a project linking a number of ethnic minority organisations. To help with this process, for the first time, early expressions of interest will be sought from any group or organisation wishing to take part in the programme, and the IABs will work to ensure they can participate either in a partnership, or on their own if appropriate.

22. Some additional eligible activities were added into the programmes in Chapter 4 as a result of the Impact Assessment. In particular, actions around acquired disabilities, and access to re-skilling to allow individuals who acquire a disability during their working life were added. This can be particularly needed for people who have mental health problems. Projects to educate employers to understand the needs of certain groups seeking to enter the workforce were also added as eligible, along with help for employers to adapt work for people who have suffered some change in health status.

Final steps in the process

23. The final steps, on the basis of the information we gathered, were to amend and revise the Operational Programmes, the application and appraisal process, and the monitoring and evaluation plan for the programme period.

24. This Equal Opportunities Impact Assessment will be published on the European Structural Funds Division website, and will be submitted to the European Commission to form a part (in summary form) of our Operational Programmes.

25. The Equal Opportunities Commission have requested a copy of this Impact Assessment and we look forward to their response which we will share with colleagues within the Scottish Executive to help them when they are undertaking similar processes.

26. The IAB will be required to ensure public access through their websites, and through a full communications plan, so that all groups, whatever their interest, have access to information about the new programmes, and the evaluations carried out.

27. The monitoring and evaluation plan will cover the gathering of information on groups being assisted. Quarterly progress reports will be submitted by projects and these will be checked against the targets proposed in their application, and against the programmes targets.

28. As part of the annual implementation report which is approved by the Programme Monitoring Committee, sent to the Commission and published, we will produce a section on equal opportunities assessing the impact of the programme each year.

29. Some comments were received about too much emphasis on gender issues, and also some comments against the targeted approach concentrating scarce resources on fewer areas and on larger projects. Although these comments were considered, and the underlying socio economic analysis re-visited, it was decided that these aspects of the programme should not be amended.

32. We made a few substantial changes in the new European Structural Fund programmes which we believe will improve the contribution they will make to economic development and equal opportunities for the people of Scotland. We also made a lot of small changes which may well be the most significant ones for the groups representing some of the most vulnerable individuals covered by these programmes, but who tend to be less vociferous and have less contact with the Scottish Executive.

European Structural Funds Division
Scottish Executive

ANNEX F: INDICATIVE BREAKDOWN OF ACTIVITIES

The following tables set out the required indicative breakdown of activities for the programmed use of the Funds, employing the categorisation in Annex II Part B of the Implementing Regulation. The priority theme table has been used to calculate the Programme earmarking target in Chapter 4 (the shaded sections in the first table indicate earmarking categories). In the territorial dimension table, 'urban' areas are those eligible for Priority 1. Allocations cannot be split further by area type as it cannot be predicted at this stage which areas will receive support.

Allocations between activities may change during the programming period and the figures below should not be used as targets.

Priority theme table			
Code	Category	Allocation: %	Allocation: total
62	Development of life-long learning systems and strategies in firms; training and services for employees ...	1.58%	4,264,751
64	Development of special services for employment, training and support in connection with restructuring of sectors ...	1.58%	4,264,751
66	Implementing active and preventive measures on the labour market	11.07%	29,880,248
67	Measures encouraging active ageing and prolonging working lives	8.18%	22,079,533
68	Support for self-employment and business start-up	9.23%	24,900,207
69	Measures to improve access to employment and increase sustainable participation and progress of women ...	9.23%	24,900,207
70	Specific action to increase migrants' participation in employment ...	8.18%	22,079,533
71	Pathways to integration and re-entry into employment for disadvantaged people ...	35.92%	96,955,602
72	Design, introduction and implementing of reforms in education and training systems ...	7.90%	21,323,754
73	Measures to increase participation in education and training throughout the life-cycle ...	4.74%	12,794,253
85	Preparation, implementation, monitoring and inspection	1.20%	3,239,052
86	Evaluation and studies; information and communication	1.20%	3,239,051
	Total	100.00%	269,920,942
	Earmarking	97.60%	263,442,839

Form of finance table			
Code	Category	Allocation: %	Allocation: total
1	Non-repayable aid	100.00%	269,920,942
2	Aid	0.00%	0
3	Venture capital	0.00%	0
4	Other forms of finance	0.00%	0

Territorial dimension table			
Code	Category	Allocation: %	Allocation: total
1	Urban	44.90%	121,194,503
0	Not applicable	55.10%	153,854,937