

OPERATIONAL PROGRAMME

EUROPEAN REGIONAL DEVELOPMENT FUND

2007-2013

HIGHLANDS & ISLANDS SCOTLAND

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1. INTRODUCTION

The following Operational Programme provides the framework for the spending of the European Regional Development Fund for the Convergence Objective Programme for Scotland for 2007-13. The Programme covers the Highlands & Islands area, defined as the whole of the NUTS 2 area of the same name. It will complement the European Social Fund Programme under the Convergence Objective for the same area.

The Highlands & Islands area is particularly challenged by the unique combination of peripherality, insularity, low population density and a widely dispersed enterprise base. In particular, the two phenomena which substantially influence the identification of priorities and allocation of resources for this Programme are low GDP and relatively low value added by the enterprise sector, contrasting with the near-full employment of the region.

The Programme takes account of the significant progress achieved in the last programming period and details the strategic framework and priorities considered most appropriate in addressing the region's continuing development needs. The Programme reflects strategic national priorities, puts Lisbon goals in context and sets out how the partnership expects to respond to these.

The Programme aims to achieve this through the following overall vision:

The vision for the Highlands & Islands is of prosperous, inclusive and self-sustaining communities, where the unique cultures, traditions and environments are enhanced and the region makes a distinctive contribution to Scotland, the UK and the EU competitiveness through supporting people, places and prosperity

It will do so through a set of co-ordinated priorities, working in tandem with the priorities of Scottish policy but also catalysing the Scottish Government's commitment to improving the main sources of competitiveness in the economy of all parts of the region. It does so fully within the context set by the Community Strategic Guidelines, the UK National Strategic Reference Framework and the UK National Reform Programme. The Programme brings an EU funding value of €121.862 million to achieving these goals and has been developed within a framework of partnership with the partners and stakeholders who will be delivering the projects that will make the Programme vision concrete.

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 2000-06 Structural Funds programmes to the 2007-13 Programme.
- 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 Regional Development Fund will complement other key EU funding, particularly the European Social Fund, the European Agricultural Fund for Rural Development, the European Fisheries Fund, EU research programmes and financial instruments available through the European Investment Fund and the European Investment Bank.
- 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 process of the Programme and engagement with partners;
- the final ex-ante evaluation report for the Programme;
- summary of the Strategic Environmental Assessment of the Programme and the environmental situation;
- summary of the Equal Opportunities Impact Assessment for the Programme; and
- an indicative breakdown of activity by category of assistance.

2. SOCIO-ECONOMIC BACKGROUND

The report provides an evidence base to inform the development of the new European Regional Development Fund (ERDF) Convergence Programme in Highlands & Islands for the period 2007-13. The analysis examines the underlying challenges in the economy in contributing to the achievement of the EU's ambitious targets for jobs and economic growth under the Lisbon Agenda. Key issues facing the region's economic development through the programming period are identified, but inevitably, these may alter over so long a time period. However, these trends are part of more fundamental features of the Highlands & Islands economy which have shaped domestic policy as well as the issues highlighted in the Community Strategic Guidelines as central to improving regional competitiveness. Crucially, these broader perspectives have been set in a Highlands & Islands context to establish priorities and identify optimal arrangements for delivery.

The analysis is not meant to be a comprehensive review of the regional economy, but a focus on a specific set of market features which Structural Funds can help to address. Some important elements of wider economic development have not been examined in detail because Structural Funds cannot provide significant support to address the issues adequately. The analysis focuses on aspects of socio-economic development where limited Structural Funds support can make significant differences. In addition, the analysis takes into consideration the areas of eligible activity set out in the Structural Funds regulations and prioritised in the Community Strategic Guidelines (as discussed in more detail in Chapter 3).

Similarly, there are other analyses that have informed the development of the Programme, not least the Strategic Environmental Assessment and summary of the environmental situation, which provides the key baseline environmental data for the Programme area and recommendations for addressing environmental sustainability issues. Consequently, the following analysis does not cover environmental sustainability issues in detail, as these are covered in annexes.

The socio-economic analysis begins with a context-setting section covering key development characteristics of the region, especially demography, employment and productivity. It then groups the assessment of the region in four categories of issues that reflect both the importance of factors specific to the region's underlying competitiveness as well as the policy themes highlighted in the Structural Funds regulations:

- challenges to general enterprise development in the region: general issues relating to enterprise development, particularly the overall health and trends in the enterprise base of the region and key obstacles to growth;
- research and innovation challenges in the region, including the research and innovation infrastructure of the Highlands & Islands as well as the opportunities in key sectors;

- challenges to communities, especially the challenges of socio-economic deprivation in fragile and peripheral areas, access to services and the challenges this brings to overall regional competitiveness; and
- access and communication challenges, especially with respect to transport and communication accessibility across the region.

Where specialised sources of data/research are used, these are cited in the text with the references listed in the annex. General sources 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

General

The population of the Highlands & Islands area in 2001 rose to 361,625, a slight increase from 1991, compared to a 0.4% decline in Scotland as a whole. However, this hid a degree of variation, with more fragile mainland areas and the islands losing population while areas around relatively prosperous towns and settlements gained population.

Table 1: Population change by area in the Highlands & Islands (1991-2001)

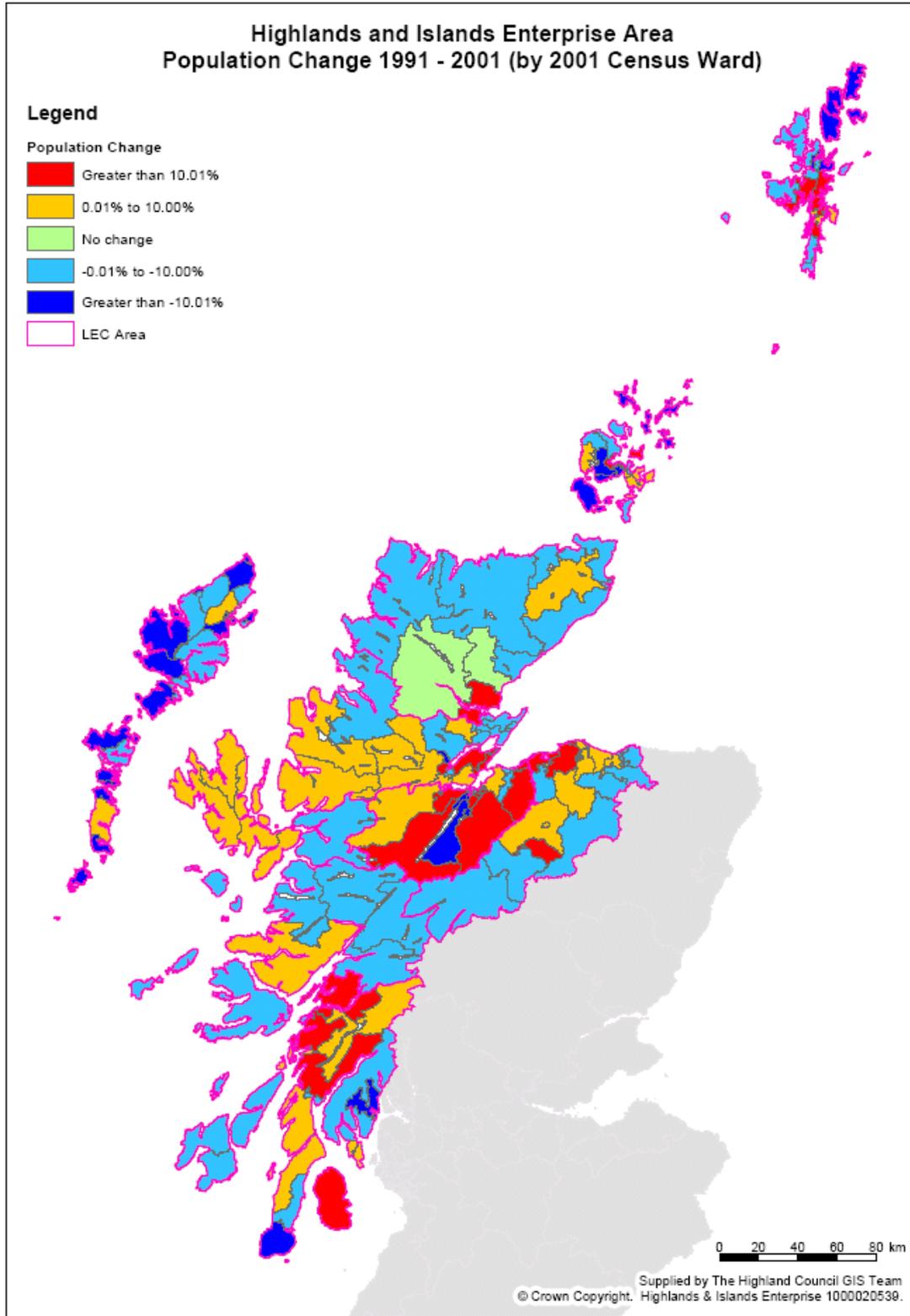
Localities	1991	2001	Change	% change
Argyll & the Islands	71,007	70,156	- 851	-2.4
Caithness & Sutherland	40,235	38,669	-1,566	-3.9
Inverness & Nairn	72,809	77,647	4,838	6.6
Lochaber	19,310	18,740	-570	-3.0
Moray, Badenoch & Strathspey (excl. East Moray)	25,783	26,583	800	3.1
Orkney	19,612	19,245	-367	-1.9
Ross & Cromarty	48,888	49,959	1,071	2.2
Shetland	22,522	21,988	-534	-2.4
Skye & Lochalsh	11,754	12,136	382	3.2
Western Isles	29600	26,502	-3098	-10.5
Highlands & Islands (excl. East Moray)	361,520	361,625	105	0.0
Scotland	5,083,330	5,062,011	-21,319	-0.4

Source: Census results from GROS and ONS. Original 1991 data revisions.

Using ward data, Figure 1 below illustrates that the general pattern of change during the 1990s was one of concentration of population around the larger settlements, while the more remote and fragile areas continued to suffer from out-migration. This pattern is most evident around the Inverness area, which has drawn people in from the surrounding rural areas, but it is also clearly replicated in Orkney, Shetland, the Western Isles and Argyll. The Western Isles experienced significant population loss over this period, with some 18 of the 31 wards witnessing a loss of more than 10%. The changes in the Easter

Ross area are dominated by neighbouring Inverness, while in Lochaber the lack of available land for housing around Fort William may have influenced the general decline in population.

Figure 1: Population change in the Highlands & Islands (1991-2001)



Source: Census 2001 wards, GROS.

One of the key challenges for the region is its settlement pattern. The Highlands & Islands has a population density of 9.3 people per km² (based on a geographic area of 39,050 km). Excluding the city of Inverness, the population density for the region falls to 7.8 people per km², compared to the Scottish average of 64.8 and the UK figure of 242.4. Low population density has produced a settlement pattern of small communities, often distant from each other, key markets and services, resulting in additional costs in the provision of goods and services due to a lack of economies of scale and a corresponding enterprise base – an important development constraint recognised in previous Cohesion policy through Objective 6 where the qualifying threshold was 8.

Peripherality is further exacerbated in the Highlands & Islands by the extent of the island-based population. In 2001, the inhabited islands had a combined population of 99,494 people living on 90 islands, some 23% of the total Highlands & Islands population. The rate of population decline has been more significant on the islands with smaller populations. Thus, while islands with a population of more than 5,000 in 2001 experienced an overall population increase of 3% since 1961, islands with populations of less than 500 experienced an overall fall of 20% in population over the same period. Depopulation, particularly in fragile areas, has been shown to have an adverse effect on community confidence and service sustainability, increasing the vulnerability of communities already experiencing acutely the problems of high-cost service provision and market access.

Age Structure

The population of the Highlands & Islands area is slightly older than the Scottish average, with a trend towards an ageing population. The percentage of the population aged 44 years or less has decreased in the Highlands & Islands from 61.7% in 1991 to 56% in 2001. This is slightly lower than the rate for Scotland, which was 59.7% in 2001 (62.3% in 1991).

The percentage of the population aged 65 years or older in the Highlands & Islands has increased from 15.9% in 1991 to 17.2% in 2001. This compares to 16% for Scotland in 2001 (15.4% in 1991). The pattern of demographic change across the Highlands & Islands, coupled with a trend towards an ageing population, is bringing fresh challenges to the Highlands & Islands area. Out-migration is also a constraint on economic growth with the Highlands & Islands witnessing an under-representation of people aged 18-30 years and out-migrants tending to pursue higher levels of training/qualifications.

Migration

Despite the levels of out-migration, some areas of the Highlands & Islands have experienced growth in the number of in-migrants. Given the relevance of population change to economic, social and cultural development, it is very

important to understand the demographics, characteristics and motivations of the migrant population.

Highlands & Islands Enterprise commissioned research to look at the in-migration patterns in remote parts of Highlands & Islands that experienced population growth during the 1980s and 1990s. Of the 600 in-migrants questioned, some 80% had moved from outwith the Highlands and Islands, 48% from England or Wales and 5% originated from outside the UK. The vast majority had strong personal connections to the area, their move driven by quality-of-life features and a long-term aspiration to undertake the move.

Inward migration to the Highlands & Islands from the rest of Scotland shows that on average, some 4,393 people moved each year (2002-04) from the rest of Scotland to the region. Some 65% of these in-migrants were below 35 years and were most likely to be university leavers returning to the area to take up their first job and young families looking for a better quality of life. Analysis of out-migration from the region to the rest of Scotland over this period shows that 72% of out-migrants were aged under 35 years, with a significant number falling in the 15-19 age category, mainly school leavers (of necessity) attending university outwith the area.

Migratory patterns between Local Authorities indicates a high level of movement between the Highland mainland and neighbouring Local Authorities with net gains in the Western Isles, Orkney and Shetland – although they have seen overall demographic decline – and net losses in Perth & Kinross, Aberdeenshire and Moray. In general there was a net outflow to urban authorities, perhaps due to young people attending university and not returning to the area having completed their studies.

The number of overseas inward migrants rose from 225 in 2001/02 to 1,630 in 2004/05, a much greater rate of increase than for the rest of Scotland and the UK overall. The distribution of migrants in the Highland area has been consistent over this time, with the city of Inverness accounting for some 40% of the total.

Most registrations were in the 18-24 (45%) and 25-34 (37%) age groups with slightly more men than women moving to the area. The number of unemployed people in Highland fell steadily during this period at the rate of about 300 per year, providing a possible link that inward migration is meeting shortages in the labour market. Evidence across the Highlands & Islands indicates that overseas in-migrants have flourished in manufacturing jobs, working in fish-processing factories and tourism-related industries.

Employment and unemployment

With the labour market tightening in recent years, employment levels in the Highlands & Islands are high. The Highlands & Islands has an employment rate of 73%, slightly above the Scotland level of 72% and significantly above the rates for the EU-15 and EU-25. The Highlands & Islands has a higher economic activity rate, at 76%, than the EU-15 and EU-25 which are at

around 70%. Between 2001 and 2005, the Highlands & Islands' economic activity rate has seen a small decrease while the Scottish and EU rates have increased by slightly more than a percentage point in the same time frame. Lastly, the Highlands & Islands' unemployment rate (3.7%) is well below the levels for EU-15 and EU-25. While unemployment across the EU increased between 2001 and 2005, it decreased in both the Highlands & Islands and Scotland.

Table 2: Headline statistics on employment and unemployment

		EU-25	EU-15	UK	Scotland	Highlands & Islands
Employment, 15-64 (000s)	2001	188,756	160,114	26,982	2,322	268
	2005	195,034	165,952	27,610	2,378	269
Employment Rate, 15-64 (%)	2001	62.7	63.9	71.4	70.2	71.4
	2005	65.1	64.5	71.7	72.0	73.4
Economically Active, 15-64 (000s)	2001	206,728	173,178	28,417	2,477	288
	2005	214,680	181,038	28,997	2,513	280
Economic Activity, 15-64 (%)	2001	68.7	69.1	75.2	74.9	76.6
	2005	70.1	71.0	75.3	76.1	76.3
Unemployment, 15 and over (000s)	2001	18,039	13,120	1,444	156	19
	2005	19,687	15,117	1,399	136	11
Unemployment Rate, 15 and over(%)	2001	8.6	7.5	5.0	6.2	6.7
	2005	9.0	8.2	4.7	5.3	3.7

Source: Eurostat.

Despite the already high levels of female economic activity, the Highlands & Islands experienced a one percentage point increase in participation between 2001 and 2005. This increase maintained the Highlands & Islands female economic activity above Scottish, UK and EU rates. The increase in female participation was, however, not enough to compensate for a 1.7% decrease in male participation, which resulted in the 2005 total activity rate being slightly down (0.3) in comparison to 2001. Still, male employment activity rates remained above 80%.

Table 3: Economic activity by gender

	Total economic activity			Male economic activity			Female economic activity		
	2001 (%)	2005 (%)	p.p. change	2001 (%)	2005 (%)	p.p. change	2001 (%)	2005 (%)	p.p. change
EU-25	68.7	70.1	1.4	77.3	77.8	0.5	60.1	62.5	2.4
EU-15	69.1	71.0	1.9	78.2	78.8	0.6	60.1	63.1	3.0
UK	75.2	75.3	0.1	82.6	81.9	-0.7	68.0	68.8	0.8
Scotland	74.9	76.1	1.2	81.4	82.4	1.0	68.6	70.2	1.6
Highlands & Islands	76.6	76.3	-0.3	83.6	81.9	-1.7	69.9	71.0	1.1

Source: NOMIS – Labour Force Survey.

Employment rates in the Highlands & Islands increased roughly in line with Scottish rates between 2001-05. Male employment rates stand presently at

79%, while female rates have risen to 68%. Both rates are higher than the Scottish, UK and EU rates.

Table 4: Employment rates by gender

	Total employment rates			Male employment rate			Female employment rate		
	2001 (%)	2005 (%)	p.p. change	2001 (%)	2005 (%)	p.p. change	2001 (%)	2005 (%)	p.p. change
EU-25	62.7	63.7	1.0	71.2	71.2	0	54.2	56.2	2
EU-15	63.9	65.1	1.2	73	72.8	-0.2	54.9	57.3	2.4
UK	71.4	71.7	0.3	78	77.6	-0.4	65	65.9	0.9
Scotland	70.2	72	1.8	75.4	77.5	2.1	65.1	66.8	1.7
Highlands & Islands	71.4	73.4	2.0	77.1	78.9	1.8	66.1	68.1	2

Source: NOMIS – Labour Force Survey.

The working-age population of the Highlands & Islands is on average less qualified than that of Scotland as a whole in terms of NVQ4 and above qualifications. The Highlands & Islands have more people with NVQ3 and below qualifications than the Scottish average, as well as less people with no qualifications. In comparison to the rest of the UK the Highlands & Islands fare better in working-age population with no qualifications, and tend to do better in terms of higher qualifications.

Table 5: Qualifications of the working age population (2005)

Qualifications	UK	Scotland	H&I
NVQ4+	26.4	30.6	26.8
NVQ3/trade apprenticeship	20.7	23.4	26.8
NVQ2	15.9	13.8	16.0
NVQ1	14.2	10.7	10.8
Other qualifications	8.3	6.7	7.7
No qualifications	14.5	14.7	11.9

Source: NOMIS – Annual Population Survey.

Earnings

Absolute earnings in the Highlands & Islands have risen over the last 25 years as a result of the general growth and diversification of the economy. However, in relative terms, the region's position has not changed significantly against national averages – incomes levels for 2004 were around 91% of the Scottish average and 85% of the UK average (as illustrated in Table 6).

Table 6: Average earnings in the Highlands & Islands (£)

	1998	1999	2000	2001	2002	2003	2004
H&I	232.7	252.4	255.3	266.5	272.4	279.5	293.8
Scotland	262.1	274.8	282.8	294.5	302.8	314.4	321.5
UK	280.2	290.0	299.6	312.5	324.8	334.8	345.5
H&I relative to UK	83%	87%	85%	85%	84%	83%	85%

Source: Annual Survey of Hours and Earnings, ONS, 2005.

Lower earnings are as a result of a range of factors including a low share of national employment in high-paying sectors, a lack of private sector head offices and the out-migration of young people. As Table 7 shows, the relatively large number of employees in agriculture/forestry/fishing and tourism-related activities, typified by low wages, is also a major contributor.

Table 7: Scotland – Gross wages and salaries per employee (£)

	2002	2003	2004
Whole economy	15,446	16,156	16,653
Agriculture, forestry and fishing	10,545	13,435	12,605
Tourism-related activities	9,100	9,600	9,800

Source: Inter-Departmental Business Register; Scottish Executive (tourism).

Examining Scottish Government median earnings levels at NUTS 2 level, Table 8 shows variation across the regions, ranging from £383 to £458 for April 2006. Argyll & Bute is the only Local Authority above the Scottish median earning level of £432 – all other areas are significantly less.

Table 8: Median earnings by H&I Local Authority area (£, April 2006)

Argyll & Bute (whole)	458
Eilean Siar	403
Highland	393
Moray (whole)	383
North Ayrshire (whole)	387
Orkney	385
Shetland	419

Productivity

GVA per full-time employee is also lower in the Highlands & Islands than in Scotland. Figures are influenced by small firms dominating the economy, higher production costs and lower value outputs. Table 9 below highlights the decline in Gross Value Added per head in the Highlands & Islands and Scotland relative to the UK average over the six-year period from 1997-2004.

Table 9: Trends in GVA: the Highlands & Islands in context (1997-2004)

	1997	1999	2001	2003	2004
<u>£m</u>					
H&I	3,243	3,526	3,794	4,206	4,569
Scotland	60,755	65,160	70,210	78,504	82,592
<u>£ per head</u>					
H&I	8,711	9,493	10,270	11,400	12,269
Scotland	11,952	12,847	13,864	15,523	16,334
<u>£ per head UK=100</u>					
H&I	72	71	70	71	72
Scotland	99	96	95	96	95

Source: ONS, 2006.

Table 10 shows how different sectors contribute to regional GVA. As with Scotland and the UK as a whole, the key sectors are real estate/business activities, manufacturing and trade, though they have smaller shares in the Highlands & Islands. In contrast, sectors such as agriculture/forestry, fishing and hotels/restaurants (as part of tourism activities) are more important.

Table 10: Share of GVA by sector of activity (% , 2004)

	UK	Scotland	Highlands & Islands
Agriculture, hunting and forestry	1.0	1.8	4.6
Fishing	0.2	1.1	2.5
Mining and quarrying	0.2	0.2	0.7
Manufacturing	14.5	14.3	12.5
Electricity, gas and water supply	1.7	2.5	2.6
Construction	6.0	6.9	8.5
Wholesale and retail trade	12.1	10.9	11.6
Hotels and restaurants	3.2	3.6	6.7
Transport, storage and communication	7.8	7.5	9.1
Financial intermediation	7.1	6.9	1.3
Real estate, renting and business activities	23.8	17.9	15.0
Public administration, defence, etc	4.9	6.9	5.7
Education	5.9	6.3	4.3
Health and social work	6.6	7.6	9.6
Other services	5.1	5.8	5.3

Source: ONS - Regional Accounts.

As highlighted in Table 11, GVA across the region varies. Concentrations of economic activity in the Inverness region and around the oil/gas industry in Orkney and Shetland have produced productivity figures that are above the Scottish average. The Inverness area has seen rapid growth, reflecting the area's growth-pole activity in the last decade. However, Shetland and Orkney have still declined significantly relative to the UK, reflecting recent changes in the oil industry. Overall, the lowest rates are recorded in the more peripheral parts of the mainland in the region, especially Caithness, Sutherland and Ross & Cromarty. However, Lochaber, Skye & Lochalsh and Argyll & the Islands area also experienced a decline relative to the UK average.

Table 11: Trends in GVA: variation within the Highlands & Islands (1997-2004)

GVA (£ per head)	1997	1999	2001	2003	2004
<i>UK = 100</i>					
Caithness & Sutherland/Ross & Cromarty	60	60	61	61	63
Inverness & Nairn/Moray, Badenoch & Strathspey	76	76	78	81	85
Lochaber/Skye & Lochalsh/Argyll & Islands	71	70	68	65	62
Western Isles	66	69	68	68	67
Orkney	89	81	74	74	73
Shetland	96	91	83	79	86
Highlands & Islands	72	71	70	71	72

Source: ONS, 2006.

Relatively low GDP/GVA across the Highlands & Islands is due to a range of factors, some of which are highlighted below:

- high share of employment in relatively poorly-paying sectors (including tourism, retailing, food and fish-processing);
- low share of employment in highly-paying sectors (including higher education, financial and professional services);
- limited research institutes and business spin-outs from higher education facilities, which are a source of highly-paid jobs;
- lack of head offices (which provide well paid managerial and other senior jobs and are a source of profits);
- incidence of low income-generating farms and crofts;
- self-employment, generating low incomes in tourism accommodation and local services;
- economies with traditionally low-pay structures (eg. Orkney, despite the presence of the oil/gas industry);
- high seasonality in employment (increasing the unemployment rate in the winter); and
- factors relating to peripherality, sparsity of population, high building costs and transport costs.

Access to education, training and research

At the start of this Programme, the Highlands & Islands does not have a university based in the region. Given that there is no successful regional economy in the world without its own university, this lack impacts on so many other factors. Without a designated university, young people have, for generations, left the area to seek higher education and at the same time there has been no benefit of people being attracted into the area to study. Continuing professional development for enterprise has been limited and there has been no central hub around which research could develop. This has changed in recent years with the region's progress towards gaining a fully-designated university.

The UHI Millennium Institute (UHI) is the only higher education institution (HEI) based in the Highlands & Islands, having achieved HEI status in 2001 (in comparison to 20 HEIs in the rest of Scotland). It provides access to university-level study through a partnership comprising the further education colleges and research institutions in the region, along with a network of over 50 outreach learning centres. The UHI is playing a large part in the cultural, social and economic development of the Highlands & Islands and is in the process of application for full university status. Scotland has 46 further education colleges, and six of these are based in the Highlands & Islands and are partners in the UHI.

UHI students, lecturers, academic partners and learning centres are part of an advanced high-speed electronic network. Students normally study at a college or learning centre – many take classes at large and busy campuses, while others access their course through one of the network's smaller campuses or learning centres located throughout the region. The UHI takes advantage of blended learning opportunities for students to use web-based learning materials and come together individually or in small groups for video-conference tutorials and seminars, as well as having access to locally based study resources and support. The UHI is the UK leader in using video-conferencing technologies in education – not to create a virtual institution but to bring people together so that they can learn from, and with, each other.

As will be explained in greater detail below, the lack of access to higher education has had a detrimental effect on business development and support. However, the creation of the UHI with Structural Funds support in previous programmes has created new opportunities:

- to develop research capacity in the region;
- to distribute the benefits of that research around the region and improve commercialisation; and
- to address the gaps in the region's learning and teaching capacity through a networked, ICT-based approach to reach the region's more remote communities.

Achieving university title for the UHI is, therefore, a key objective for this Programme (along with the Highlands & Islands ESF Programme) which will underpin much of the enterprise, innovation and sustainable community support as well as education, training and research capacity. The timescale for this is within the first few years of this programme, therefore activities during this time will be of significant importance. The Strategic Delivery Body approach for the UHI, as the only HEI in the region and working through the region's further education colleges and research institutions, will help to achieve this goal, leaving a major lasting legacy from the structural funds.

Key messages

- While population increased in the region as a whole, there have been significant variations, with some communities having experienced substantial declines (particularly in the islands). There is also a trend towards an ageing population, more so than in other parts of Scotland and the out-migration of young people from the region.
- Low population density and a dispersed settlement pattern underlines the peripheral and rural nature of much of the region.
- Unemployment and economic activity rates in the region compare relatively well with Scotland, UK and EU averages.
- In terms of earnings, while levels have improved over time, the Highlands & Islands continues to perform below Scottish and UK averages.

- Overall, the region has relatively lower productivity than Scotland and the UK, with some parts of the region displaying particularly low rates.
- Economic development in the region has been constrained by the lack of an indigenous university.

2.2 Enterprise

General enterprise

With almost 18,000 enterprises registered for VAT, the Highlands & Islands has a significantly higher enterprise stock relative to its population size than Scotland and the UK, though it still has a small stock in a European context.

- In 2004 there were 389 enterprises per 10,000 population in the Highlands & Islands, well above the Scotland and UK average stock of 250 and 306 respectively. This fits with the Countryside Agency's finding that, in England, there are 8% more enterprises per head of population in rural areas than in urban areas.
- However, between 2000 and 2004, the Highlands & Islands has seen a small decline in its enterprise stock, while Scotland (1%) and the UK (3%) have both seen increases.
- By NUTS 3 area, Orkney and Shetland have the highest enterprise stock relative to population. However, the two areas and Eilean Siar have seen the greatest decrease in enterprise stock between 2000 and 2004.

The health of the enterprise stock is dependent on the extent to which it is replenished by new businesses. There are around 33,000 self-employed in the Highlands & Islands, 12.4% of all those in employment.

- This is lower than the EU-25, EU-15 and UK figures, but above the Scottish average.
- Between 2001 and 2004, self-employment in the Highlands & Islands decreased by 11.5%. This is a substantial fall relative to the increase in self-employment in the EU, UK and Scotland.

On the basis of VAT registrations, almost 1,280 new enterprises set up in the Highlands & Islands in 2004.

- The enterprise birth rate at 27.8 per 10,000 population is above the Scotland figure of 23.3 but below the UK average of 30.7.
- Orkney, Shetland and the Inverness-centred Highland Council area have the highest enterprise birth rates at close to 30. Moray Council area consistently has the lowest at 19.

The enterprise closure rate in the Highlands & Islands mirrors the enterprise birth rate. At 31.4 per 10,000 population it is well above the Scotland figure (23.6).

Although relatively strong compared to Scotland as a whole, the enterprise stock in the Highlands & Islands continues to present challenges for the region. This derives in large part from the poor new firm formation rate which could present difficulties to the region's entrepreneurial development. Evidence suggests that in Scotland as a whole there remains a potential pool of 'would-be' entrepreneurs. A survey by the Small Business Service (2003) found that 10% of the Scottish adult population (compared to 13% in England) are, or have recently been, thinking about setting up their own enterprise. However, the 'problem' is that would-be entrepreneurs are less likely to take action in Scotland than in England. Consequently, if the new firm formation rate is to be improved, the key requirements are to stimulate business start-ups and to ensure the population has the skills and resources to convert their interest into action.

There are many inter-dependent factors which stimulate or constrain the willingness and ability of individuals to set up their own enterprise. At the level of the individual, the main perceived constraints traditionally relate to finance. This has several dimensions:

- Most enterprises are set up using the founders' personal finance. Many do not have the necessary savings to enable them to set up in enterprise.
- Raising external finance (ie. from the banks) also requires that 'would-be' founders have access to personal savings or wealth to offer as security or meet bank 'gearing ratio' requirements.
- There is some fear of taking on debt (presumably aggravated by the need to provide security from personal assets) and there are concerns about security (eg. leaving a job and concerns over potential enterprise failure).

Access to finance, rather than marginal variations in its cost, has been seen as a widespread barrier especially amongst those with few savings such as the young. Fraser (2005) found that the main source of start-up finance was personal savings – used by two-thirds of start-ups. Other sources of finance commonly used are loans from friends and family (used by 13% of start-ups) and bank loans (used by 10%). Just 2% used equity finance. This suggests that access to external start-up finance is limited, with most people using personal savings, mortgaging their home or borrowing from friends or family.

Other critical barriers to business success that are particular high in the Highlands and Islands, from the Small Business Survey, include difficulties recruiting staff and a reported low satisfaction with public transport getting people to work. On the employment side, Highlands & Islands businesses are much more likely to employ workers seasonally (46% versus 24% in Scotland as a whole) and to employ some staff on the minimum wage (22% versus 9%).

In addition, the survival rate of businesses in the region needs to be improved, with a relatively high business closure rate for the Highlands &

Islands. Businesses are likely to face distinctive pressures in the region, including the following.

- Relative lack of access to export markets. Export performance for the region has been limited by the peripheral nature of the region and higher transport costs. Although there are sectors where export performance is strong – such as the food/drink industry, particularly whisky – exports as a whole are limited by the issues discussed above in relation to the regional economy as a whole as well as the lack of exporting and marketing skills within many individual enterprises. According to the Scottish Global Connections Survey in 2002, the region only accounted for 5% of total Scottish exports, although encouragingly, if somewhat predictably, a higher share of this came from the SME base than in Scotland as a whole.
- Limited e-commerce. Broadband access in the region has been growing, but still only covers 65% of most organisations, according to the Scottish e-Business Survey (Scottish Enterprise, 2007). Strong investment in broadband infrastructure in recent years – not least by the Scottish Government supported by Structural Funds – has improved access, but usage is still relatively stronger in urban rather than rural areas. Across the region, there are areas where organisations believe that broadband speed and access is particularly limited, notably Orkney, Shetland and Lochaber. Coupled with perceptions about access is the extent of e-business usage, which, for Scotland as a whole, has been increasing, but continues to lag key competitor counties in the EU and North America.
- Limited business community and support infrastructure for business development in rural areas. Peripherality has a further impact through the small and dispersed settlement pattern of the region, so that enterprises in the more isolated and rural parts of the region lack access to key support infrastructure and services. This can include adequate industrial property, access to development finance and start-up and business growth advice.
- Limited business skills capacity, arising from the weak training and learning infrastructure. Enterprises in the region suffer from a lack of adequate skills and training infrastructure. The historical lack of a university in the region and the distributed nature of the further education network has limited the region's business training capacity, particularly with respect to marketing, exporting, business planning, finance and other key start-up, development and business expansion skills. As seen below with relation to the University of the Highlands & Islands, this is changing, but it remains a significant bottleneck for enterprise development.

Key sectors

Overall employment in the Highlands & Islands is presented in Table 12. Relative to the UK, the region has a high share of employment linked to the public sector, perhaps not surprising given the need for public services to

cover such a peripheral and sparsely-populated area. The public services figure masks a relatively stronger dependence on tourism-related sectors as well as primary sectors such as agriculture and fishing, in the Highlands & Islands, while manufacturing is considerably less important than in Scotland in employment terms.

Table 12: Share of employment by sector (2004)

	Scotland (%)	H&I (%)
Agriculture and fishing	3.0	2.5
Energy and water	2.1	1.3
Manufacturing	13.8	9.9
Construction	7.4	6.7
Distribution, hotels and restaurants	27.7	26.7
Transport and communications	7.2	5.2
Financial intermediation/business services	21.3	9.5
Public administration, health and education	11.3	33.3
Other services	6.1	5.2

Source: ABI.

Within this analysis, it is important to draw attention to key sectors which can underpin future economic growth and regional competitiveness. The sectors comprise those drawing on the competitive advantages of the region and emerging research strengths and have been targeted by Highlands & Islands Enterprise as potential growth sectors for the economy. They are:

- renewable energy, such as wind, hydrogen, wave, tidal and biomass;
- sectors based on natural, historical and cultural resources, especially the natural environment, archaeological resources, Gaidhlig and the region's cultural assets – these include food and drink, forestry and cross-cutting sectors such as tourism and creative/cultural industries;
- other key energy-related activities, notably the nuclear decommissioning especially – and from a Structural Funds perspective, more relevantly – the supply industry to nuclear decommissioning activity (eg. supply of key technologies, products and services in treating nuclear waste and de-constructing irradiated buildings and infrastructure); and
- life sciences.

Each of these areas are discussed in turn below.

Renewable Energy

Renewable energy technologies are key to achieving the Scottish Government's (2005) Sustainable Development Strategy goal of sustainable development through an innovative and productive economy that delivers high levels of employment and protects while enhancing the physical and natural environment. A thriving renewables sector has the potential to enhance Scotland's manufacturing capacity, to develop new indigenous

industries, particularly in the Highlands & Islands, and to provide significant export opportunities. The Scottish Government has set the target of 18% of electricity generated within Scotland by renewable means by 2010. There is also the aspiration of generating 40% of its electricity from renewable sources by 2020. There are currently about 90 applications for licenses for wind farm projects above 50 Megawatts in the Highlands & Islands.

Within the region, there are key areas where the Highlands & Islands has strengths that offer strong opportunities for growth.

- Marine. The Scottish Government Opportunities for Marine Energy in Scotland report (2002) concluded that Scotland already possesses many of the skills and capabilities required to develop a marine energy industry. The Highlands & Islands leads Scotland in the industry through the European Marine Energy Centre which has a commercial wave energy scheme in Islay and a Marine Energy Test Centre in Orkney.
- Biomass. Biomass projects hold significant potential for the Highlands & Islands as not only do they provide a flexible and predictable generation source but also provide opportunities for rural regeneration, job creation and the development of sustainable communities.
- Micro-Renewables. The Scottish Community Regeneration Initiative provides local support through a 'one-stop shop' to encourage local participation in, and awareness of, micro-renewables. The Highlands & Islands Community Energy Company supports community developed and owned renewable energy projects.

Linked to this is the use of renewable energy within the region. Scope exists for supporting local renewable energy projects, particularly micro-generation linked to community energy needs. Increased local use of renewable energy would provide a local market driver for the sector and its technological research. Such activity is eligible under the Scottish Rural Development Programme.

Tourism and Cultural Industries

Tourism is a key sector in the Highlands & Islands as it includes accommodation, visitor attractions, transport, retail, food and drink, and leisure activities. The area's scenery and cultural heritage attracts visitors, providing economic benefits to the region (HIE, 2004).

- In 2001, around four million visits were made to the Highlands & Islands by UK residents, accounting for an estimated £792 million spend.
- Around 500,000 trips were made to the Highlands & Islands by overseas visitors, spending an estimated £110 million.

- The total output and GVA generated at basic prices from tourism for hotels and restaurants is roughly £410 million and £228 million, respectively. This is equivalent to £12,000 GVA per employee in the hotel and restaurant sector.

Tourism is a significant employer in the Highlands & Islands at 11% of all employees, representing a slightly higher proportion of total employment in this region compared to Scotland as a whole. Tourism also supports a higher proportion of part-time employees and female employees than any other sector in the Highlands & Islands (HIE, 2004).

Table 13: Headline tourism indicators (2004)

	Highlands & Islands	Scotland	Great Britain
No. of employees	17,547	188,929	1,982,443
Employees (% of all)	11.0	8.1	7.6
Female employees (% of all tourism)	61.8	60.8	57.5
Part-time employees (% of all tourism)	53.9	55.3	54.5
Small firms (<25 employees)	1,758	15,313	166,669
Small firms (% of all tourism)	92.0	91.0	91.4

Source: Annual Business Inquiry.

The sector faces a mixture of threats and opportunities. Low earning levels and productivity have been identified already. However, there are strong opportunities in the sector following the sustained investment in key tourism sites and infrastructure over the past decade – not least by past Structural Funds programmes.

The area's natural and cultural heritage is a vital ingredient of local amenity, quality of life, health, community confidence and a sense of place. They are unique assets which offer clear economic opportunities in the creative industries such as music, cultural and environmental and cultural tourism. These activities have potential for considerable community benefit and make a major contribution to sustainable development aims. There is increasing interest in all aspects of arts, culture and heritage at a time when the population is growing and its composition changing.

For example, the creation of Sabhal Mòr Ostaig, the Gaelic College on the Isle of Skye not only brought educational opportunities to people on the island, but created: 76 full-time jobs; 28 part-time jobs; £1.6 million annually to the local economy; and 24,720 bed-nights rented annually in the local community.

The creative/cultural industries sector is diverse and fast-growing, and makes an important contribution to the economy and cultural life in the Highlands and Islands. The sector is dominated by small and micro units and includes a high proportion of semi-professionals, self-employed and voluntary/unpaid workers.

The wider sector employs just over 3,500 people in the Highlands and Islands, with some 750 individual business units. The sector has been further boosted in the area by investment in the Scottish Year of Highland Culture 2007 – a celebration of the region’s culture and language, marked by a series of linked events that seek to make full use of the key tourism sites, infrastructure and services. It is envisaged that further opportunities will be presented through Scotland’s Year of Homecoming in 2009, another national celebration aimed at attracting hundreds of thousands of extra visitors, particularly those with direct Scottish ancestry and links, by showcasing Scotland as an ideal location to visit.

Strengthening the Gaidhlig language through a focus on young people, broadcasting, cultural tourism and the arts are key priorities for action. Pursuing initiatives with the area’s Nordic, Scots and Doric language traditions are also important.

Fostering the important role the arts play in regeneration, building the role of sports in our communities and harnessing the value of natural heritage destinations as assets which can create community benefit are all critical for developing the sector.

Food and Drink

The food and drink industry employs 7,000 people across the region, with over a fifth involved in distilling spirits. Sixty percent of businesses are small enterprises (up to 10 employees), demonstrating the dependence on a small business base. It has a strong exporting base and has research strengths in the academic sectors, such as the Agronomy Institute at Orkney College.

The region has a strong reputation for distinctive quality food and drink, of which the most famous, and one of the region’s key exports, is whisky. The industry has strengths in the region’s natural assets – particularly the environment producing good-quality fish and meat and contributing to whisky production – as well as global brand recognition for its products. Low-cost competition from new competitors in the EU, particularly eastern Europe, has put more pressure on food and drink enterprises in the region to move towards higher value-added products and developing niche markets.

Opportunities for the sector are clearly based on developing more higher value-added products and building on the reputational and export excellence of the sector. However, there are significant weaknesses to be addressed, including the relatively limited earnings level, difficulties in recruitment into the sector in parts of the region (such as Moray) and a high level of the region’s primary produce leaving the region with little additional processing and value added.

One particularly important opportunity relates to more effective use of local produce. 46% of visitor spending relates to food and drink, and two-thirds say that they would be prepared to pay more for quality food and drink. This suggests there are opportunities to promote local produce through farm visits

and shops, local markets and retailers, visitor centres linked to food and drink processing, restaurants and mail-order business.

Forestry

Overall, the industry employed just over 1,000 individuals in the region in 2005, while the saw-milling sector was responsible for a further 550 jobs and wood product manufacturing, 820 jobs. The Scottish industry as a whole is strong in UK terms – for example, Scottish roundwood timber accounts for 65% of the UK's total harvest. Overall, the Scottish forestry sector accounts for £570 million of total gross value added.

The industry is characterised by relatively low wages and gross value added and a high share of employment in SMEs. However, the industry has been growing in recent years (for example, GVA has increased by 8% since 2002). The region also has a strong set of natural assets in the widespread woodland covering the region. Opportunities lie in the development of higher value-added products and a longer value chain in the indigenous industry. There are also market opportunities in the use of wood fibre for the renewable energy industry.

Other Key Energy-Related Sectors

Nuclear decommissioning activities have become an active economic cluster around the Dounreay site in Caithness. The decommissioning of the Dounreay site is expected to last until 2033, not only generating direct employment through the Dounreay-specific work, but providing the opportunity for suppliers to develop skills and products that can be marketed in decommissioning work elsewhere in the world. Dounreay supports approximately 2,500 jobs directly and indirectly and represents a large share of employment in the Caithness and north Sutherland area. Relatively high wages typify the sector.

From a Structural Funds perspective, nuclear decommissioning *per se* is not eligible, so what is relevant here is the supply industry that has grown up around the decommissioning. The emergence of Dounreay as an international centre for excellence in skills and research has given local firms an opportunity to develop a global competitive advantage, particularly with respect to developing and commercialising the technologies surrounding the disposal and treatment of waste, 'cleaning' up contaminated land and deconstruction of contaminated buildings and equipment. Reinforcing this advantage will be essential as the decommissioning work in the area tails off and companies will need to find new markets, but given that there some 400 reactors worldwide currently being decommissioned (or due for it soon), exporting opportunities are potentially strong.

Life Sciences

The life/health science sector in the Highlands & Islands has grown significantly in recent years. This growth is built around several key bodies: the location of LifeScan Scotland's facility in Inverness (which employs 1,460 of the total 1,840 employees in the sector as a whole); and the new Centre for Health Science being constructed at Raigmore Hospital in Inverness over the 2006-08 period.

LifeScan dominates the sector, as all the other significant companies in the region are SMEs. The concentration of employment makes the sector vulnerable to the company's fortunes, although marine and environmental sciences are also represented in, for example Dunstaffnage and the Environmental Research Institute attached to North Highland College in Thurso. Nevertheless, the emergence of a strong academic research cluster in the region, based around the new Centre for Health Science, should give the science sector opportunities for diversifying and broadening its enterprise base.

Key messages

- The region has a relatively high enterprise stock, but one that is still small in absolute terms, particularly in the more remote areas. Existing businesses in the region face a combination of distinctive challenges owing to their peripheral location, cost of access to major markets and limited access to business skills training.
- A relatively low new firm formation rate also points to long-term issues on the sustainable growth of the enterprise base, although the region does have a healthy supply of self-employed individuals. Finance and entrepreneurial skills are key bottlenecks for the development of new businesses.
- Many enterprises in the region face acute problems in developing external markets and exporting, arising from the peripherality of the region and distance to major sources of market growth.
- Despite the challenges facing many of the enterprises in the region, the Highlands & Islands has a number of key industries whose continuing growth are critical to the region's overall competitiveness. These include industries such as renewable energies, tourism, food and drink, forestry, other energy-related sectors and life sciences.

2.3 Research and Innovation

Research and innovation in enterprises

Compared to much of Europe, the absolute level of innovation in the UK and particularly Scotland, is relatively low. The Highlands & Islands differs little from the rest of Scotland in this regard.

- In terms of existing enterprises, the proportion of companies introducing product and process innovation is low. On the other hand, the firms which do innovate obtain a much higher proportion of income from their new or improved products than most of Europe.
- Patent applications, while only a partial and indirect measure, are lower in Scotland as a whole at 95 per million population than the EU-25 average at 135.

Gross expenditure on research and technological development (RTD) in Scotland in 2003 amounted to 1.5% of GDP. This is below the UK average and the figure for the EU-25. Per capita expenditure in Scotland lags both the UK and EU-25 figures. However, there have been substantial increases in Scotland's expenditure (25%) between 2000 and 2003. This is accounted for by growth in both enterprise and higher education RTD.

For RTD, data is available on total employment in RTD-intensive industries, namely computer and related activities, research and experimental development in natural sciences and engineering, and technical testing and analysis. For the sector, the key industries which are research dependent are renewable energy, life sciences and nuclear decommissioning.

The share of Highlands & Islands employment in the selected RTD-intensive industries is low, around half the proportion for Scotland and Great Britain. Employment in knowledge-intensive industries is shown in Table 14 below – as can be seen, the region significantly trails Scotland and Great Britain, reflecting in part the absence of strong research activity in the region, including the lack of a research-intensive university.

Table 14: Knowledge-intensive industrial employment (2004)

	Highlands & Islands	Scotland	Great Britain
KII total employment	20,781	521,412	6,588,173
KII employment as % of total	13%	22%	25%

Source: Measuring Progress towards Smart Successful Scotland 2006. Definition of knowledge-intensive industries: the relevant industries are categorised by their Standard Industrial Classifications, specifically SICs 24, 29, 30, 31, 32, 33, 34, 35.2, 35.3, 35.4, 64, 65, 66, 67, 71, 72, 73 and 74.

According to the Annual Business Inquiry, knowledge-intensive employment in 2003 was concentrated in certain areas, particularly the area around Inverness (25% of all Highlands & Islands knowledge-intensive employment), Moray/Badenoch/Strathspey (19%) and Ross & Cromarty (19%). Areas that were particularly low included island areas such as Orkney, Shetland and Skye & Lochalsh. The BERD report for 2003 also concluded that expenditure in business R&D within the region was highest in the Highland area, particularly around Inverness.

An important determinant of innovation is business RTD. Consequently, the relatively low level of corporate RTD in Scotland – and in the Highlands & Islands in particular – is an important factor constraining innovation. The low level of RTD reflects *inter alia*:

- Scotland's industrial structure with medium/high-tech manufacturing and high-tech services under-represented (relative to both the UK and EU-15 averages) – this imbalance is even more marked in Highlands & Islands with the relatively higher shares of employment in primary-based manufacturing sectors such as food and drink as well as service sectors such as tourism, which traditionally have lower RTD intensities; and
- the limited presence of two of the UK's most RTD-intensive industries (ie. aerospace and automotive sectors), again even more marked in Highlands & Islands.

Beyond this, many of the barriers to increased RTD are similar to the barriers to innovation. Scottish and UK companies tend to cite the same constraints on innovation. The most frequently quoted factors, both by innovators and non-innovators, are the cost and risk of investing in innovation, combined with the cost and availability of finance. Given that much innovation is financed from retained earnings, the cost and availability of finance is influenced by both past company performance (ie. profitability) and problems of raising external finance.

Innovation requires expenditure (ie. investment) ahead of the generation of income arising from successful innovation. As such, it creates risk via its initial negative impact on cash flow. The payback period, especially from investment in RTD, can be long term. The risks are most severe for small companies while small, young companies are also more dependent, almost by definition, on raising external finance for innovation (ie. they have fewer retained earnings). Nevertheless, there is a substantial minority of 'potential innovators'. For these, access to finance is a constraint. For those already involved in innovation, access to finance constrains the level of investment in RTD and innovation. These constraints are most severe for small and young enterprises (DTZ Pineda, 2004).

A second widely-perceived barrier amongst innovators is the recruitment of appropriately-qualified personnel. Nevertheless:

- the Scottish companies in the Community Innovation Survey employ more science and technology graduates and more graduates in other subjects as a percentage of their total workforce than the UK average; and
- an above-average proportion of the entire Scottish workforce have degrees (including an above average proportion with science and technology degrees).

Human capital, at least as measured by qualifications, is another significant factor in the Highlands & Islands, where the out-migration of young graduates

and the absence of a university-status body to address the research skills need of the region hinders its overall RTD capacity.

These are Scottish-wide problems and while data on RTD capacity in the Highlands & Islands is limited, the region experiences other problems that exacerbate these more common issues. As noted, they include the limited presence of significant research and innovation centres, particularly in the academic sector, which traditionally have acted as catalysts for new technology spin-outs and the wider dissemination of new technologies and innovation. As described in more detail below, the region has only started to develop a set of higher education and integrated further education bodies which can become the focus for industry-specific research and innovation through the UHI Millennium Institute. At the same time, higher and further education bodies based in other parts of Scotland are developing useful links to parts of the region. A high priority has been given to developing the basic infrastructure for research, building up the capacity for future. Similarly, the diffused nature of the enterprise sector and the absence of large firms has reduced the critical mass of businesses that can form industrial clusters or drive industrial research and development.

Higher and further education infrastructure and research and innovation

The region has traditionally lacked a strong infrastructure for research and innovation, although there have been marked improvements in recent years. Whereas in more urban parts of Scotland, there are well-developed higher/further education and research institute centres which have generated strong RTD expertises, such capacity has been absent in the Highlands & Islands until recently. Without a designated university in the region, there has been no focal point around which such research could develop. Particular industrial expertises have developed in individual further education and research institutes, but there has not been sufficient co-ordination and networking between these centres to allow the region as a whole to benefit from RTD and innovation synergies.

This has changed in recent years with the region's progress towards gaining a fully-designated university. The Highlands & Islands area is different from the rest of Scotland in relation to its higher education infrastructure, due to the historic challenges of geography and sparsity of population; however at the start of this Programme the region still does not have its own university. The UHI is the only higher education institution based in the Highlands & Islands, providing access to university-level study through a partnership comprising the further education colleges and research institutions in the region, along with a network of over 50 outreach learning centres. As noted above, the UHI and its college network is playing a large part in the cultural, social and economic development of the Highlands & Islands and is in the process of application for full university status.

The lack of access to higher education has had a detrimental effect on business development and support. However, the creation of the UHI with

Structural Funds support in previous programmes has created new opportunities:

- to develop industrial research expertises in the region;
- to distribute the benefits of that research around the region and improve commercialisation; and
- to address the gaps in the region's learning infrastructure through a networked, ICT-based approach to reach the region's more remote communities.

At the same time, higher and further education institutes based in other parts of Scotland are developing research and training links with particular areas within the region that could supplement the effort to give the region a solid research and training infrastructure.

Key messages

- The Highlands & Islands has notable deficiencies in its RTD and innovation capacity, exacerbated by the small enterprise base, the few number of key research centres, lack of finance, lack of university and the consequent limited research skills training infrastructure in the region.
- Further and higher education infrastructure has traditionally been weak in the region, with limited access to training and education opportunities, contributing to the weaknesses identified in other parts of the socio-economic analysis. UHI and the related network in the region presents a strong opportunity for the Highlands & Islands to address this gap.
- The development of research expertises in the UHI and its college network and their outreach to industry is creating opportunities for the Highlands & Islands to develop world competitiveness in certain sectors.

2.4 Communities

Economic performance and the factors affecting it are mixed across the region. As Table 1 showed, different parts of the Highlands & Islands are experiencing different population trends, with significant increases in the growth-pole area around Inverness and sharp losses in areas such as the Western Isles and Caithness and Sutherland. Earnings level also vary, with low levels in part of the Highland area, Moray and Orkney, as Table 8 emphasised. Consequently, the challenges facing the economy are not simply region-wide, but reflect the operation of local circumstances, often working in tandem to produce pockets of severe economic and social deprivation. If the Highlands & Islands is to make its full contribution to the Lisbon targets, then all parts of the region must be able to make strong contributions.

The region is characterised by a sparsely-distributed settlement pattern, island and insular communities. This can be seen when looking at the index of 'rurality' for the region, as measured by the Scottish Government's six-fold urban-rural classification. When examining population in 'accessible' and 'remote' rural – ie. settlements of less than 3,000 people and within 30 minutes driving of settlements of 10,000 or more – parts of the region have shares that are substantially above the Scottish average – for example, the Western Isles have 78.9%, Orkney 67.8% and Shetland 69.4% of their populations in remote rural areas, well above the Scottish average of 6.4%.

Peripherality and insularity in this context can be reflected in levels of community disadvantage. Statistics to compare community disadvantage across European regions are not readily available. Analysis in Scotland is primarily confined to the Scottish Index of Multiple Deprivation (SIMD). The index is a combination of six stand-alone indicators: current income; employment; education, skills and training; health; housing; and access to local services. However, while effective at identifying urban disadvantaged communities, including those in the Highlands & Islands, the SIMD does not adequately identify rural disadvantaged communities because:

- rural disadvantage is less visible due to low population densities; and
- the SIMD is dominated by the levels of disadvantage in Scotland's urban areas.

The table below gives the Highlands & Islands overview of the six SIMD indicators. The percentages represent the number of the region's 623 data zones that fall within Scotland's most deprived data zones. The benchmark is the 9.6% of all Scotland's data zones that are within the Highlands & Islands.

Table 15: Deprivation in the Highlands & Islands data zones (2004)

	% of NUTS 2 area data zones in Scotland's most deprived data zones		
	5%	10%	15%
Current Income	1.0	2.4	4.0
Employment	0.6	2.1	3.2
Education, Skills and Training	0.3	0.5	0.6
Health	0.8	2.2	3.9
Housing	0.0	0.2	1.9
Access to Services	25.0	36.0	42.7
SIMD	0.5	2.1	2.9

Source: Scottish Index of Multiple Deprivation.

- Only the access to services indicator would appear to show levels of rural disadvantage. The indicator measures drive time to key services, such as GPs, primary schools and supermarkets. 43% of the Highlands & Islands' data zones are in Scotland's 15% least accessible. Distance and peripherality is a key issue for Highlands & Islands' communities.
- The five other indicators and the overall SIMD show that disadvantage in the Highlands & Islands cannot be identified using conventional measures. Only 3% of the region's data zones fall in Scotland's 15% most deprived.

Within the region, another measure of disadvantage is the 'fragile area' status applied by Highlands & Islands Enterprise. This recognises that these are particularly disadvantaged areas of the region with long-term structural problems of economic decline, resulting from a self-reinforcing combination of remoteness, poor infrastructure and low or low-earning levels of economic activity. A formula is applied – as described in greater detail in Chapter 4 – which helps to guide resource allocation by HIE. The shares given in Table 16 below give an indication of the weighting of disadvantage as measured by area fragility in different parts of the region. Within this table, fragility is most acute in several island communities – notably the Western Isles and Argyll & the Islands – as well as remote parts of the mainland, such as Caithness & Sutherland.

Table 16: 'Fragile area' status in the Highlands & Islands (2006 formula share)

Shetland	5.6
Orkney	4.7
Eilean Siar	12.9
Skye & Lochalsh	4.3
Caithness & Sutherland	14.3
Ross & Cromarty	11.6
Inverness, Nairn, Badenoch & Strathspey	10.4
Moray	10.1
Lochaber	4.8
Argyll & the Islands	21.4
Total	100.0

These rural disadvantaged communities face many of the same barriers to employment as those living in deprived urban areas but there are some important differences.

- Deprivation is not as geographically concentrated as in urban areas and, as a consequence, is often less visible.
- Employment rates are often higher in rural areas but the type of jobs in rural areas can lead to a higher incidence of under-employment where more jobs tend to be:

- low-paid
 - part-time
 - seasonal
 - limited in their opportunities for progression.
- Distance and isolation from services and employers, allied to the cost and availability of transport, are key issues. This is particularly acute in the Highlands & Islands where, as will be seen in the following section, the limitations of public transport and the geographical challenges of the terrain (especially for islands) creates substantial transport issues.
 - Lack of other support services for employment, such as training and childcare support, have contributed to out-migration as well as reducing opportunities for progress through the labour market for people living in the more remote communities.
 - The take-up of benefits tends to be lower in rural areas.
 - As earlier sections have shown, some communities have also experienced significant population decreases as well as low levels of productivity, suggesting that there are significant demographic and economic sustainability threats.

Supporting the access to services indicator, the vast majority of Highlands & Islands residents live in small towns or rural locations.

- The three island NUTS 3 areas have close to 70% of their residents living in 'remote rural' locations (as seen above).
- Even in the Highland Council area, 37% of the population live in 'remote rural' locations and only 31% in urban areas or 'accessible small towns'.

Overall, rural areas such as the Highlands & Islands are strongly characterised by self-employment, part-time employment and under-employment.

- Self-employment is much more prevalent in rural areas (Scottish Executive, 2003). This reflects the importance of micro/small enterprises in sectors such as agriculture and tourism and is often associated with low average wages. However, this does not necessarily reflect a strong, thriving enterprise base with vigorous new firm formation rates, but in many cases, the absence of other employment alternatives.
- Part-time employment is much more common in remote rural areas than in Scotland as a whole, and in comparison with accessible rural communities. This reflects the thinner economic base in more sparsely populated, remote communities and the difficulties in sustaining full-time employment.

The greater prevalence of part-time and self-employment implies lower earnings from employment. Seasonality of employment can also add to under-employment and lower earnings. Futureskills Scotland (2005) found that 28% of workplaces in rural Scotland had a workforce fluctuating

seasonally, compared to 23% in the rest of Scotland. Temporary contracting was also much more common in rural areas. It also found that:

- employees in rural Scotland are more likely to work in agriculture, forestry and fishing, energy, water and construction, hotels and restaurants, and health and social work than those in the rest of Scotland; and
- rural Scotland is significantly under-represented in financial intermediation and real estate, and is slightly under-represented in transport, storage and communications; public administration and education; and other services.

Similarly, with respect to the distribution of employees by occupation in rural Scotland, rural areas do not perform as well as the rest of Scotland:

- Employees in rural Scotland are less likely to be in managerial or professional occupations than those in the rest of Scotland...
- ...and more likely to be in personal service, operative and elementary occupations.

Whilst this partly reflects the industrial make-up of rural areas, it is a concerning finding and may go some way to explain the migration of young people away from rural areas when they leave school (and university).

Evidence of the importance of smaller employers in the rural economy shows that 24% of employees in rural Scotland continue to work in workplaces with less than 10 employees, compared to just 16% of employees in the rest of Scotland (Futureskills Scotland, 2005). In contrast, 27% of employees in the rest of Scotland work in workplaces with 250 or more employees, compared to just 11% of employees in rural Scotland.

Research has shown that disadvantaged communities struggle to attract and sustain business activity. This is not easily shown statistically, as areas of deprivation are often highly localised while SME-related data are limited to local authority areas. Additionally, the relative lack of high geographical concentration of disadvantage in the Highlands & Islands makes it even harder to research this issue. Businesses located within rural locations face a number of critical issues (Smallbone et al., 2002), including:

- small local markets and distance to major urban centres;
- few chances to do business with and communicate with local firms due to the small number of local companies in actual numbers rather than densities;
- skills shortages caused by restricted local labour markets and a lack of affordable housing and childcare;
- a shortage of accessible training schemes/courses; and
- high levels of specialisation.

The challenges facing such peripheral communities presents several challenges to economic development for the region as a whole. If communities lose the 'critical mass' to be self-sustaining – ie. if the services, infrastructure and employment opportunities become so poor that population loss is accelerated – then there is a risk of regional disparities within the Highlands & Islands widening significantly. As some of these communities serve a wider area, the social and economic prospects of larger areas may be threatened, creating a risk of population and economic activity gravitating towards growth-pole areas like Inverness, which would be unable to sustain such congestion, and a longer-term danger of skilled and young people moving away from the region in numbers. Without a balanced approach to development in the region, the prospects of the Highlands & Islands as a whole become vulnerable.

Sustainability involves a mixture of the social factors underlying community cohesion – such as key community services – and the economic potential of the local area. The key barriers and constraints for the Highlands & Islands with respect to such community sustainability are:

- In the Highlands & Islands, peripherality and distance to key services coupled with insularity and islands are key barriers to sustaining viable communities, not just in terms of their enterprise base, but with respect to retaining population overall.
- As has been noted, the region has a very low population density, highly-dispersed settlement patterns and an ageing population though, in recent years, the population size has stabilised. Nevertheless, these features are particularly acute in some parts of the region and population loss is a serious threat to some communities.
- Overall, there has been net migration into the Highlands & Islands with the major exception of 16-24 year olds, many of whom move out of the region to further their education and often do not return. At present, with the lack of a university, there is limited scope for attracting young people from other regions or countries into the Highlands & Islands to redress the balance.
- SME activity and self-employment levels are high in some parts of the region, but the small enterprise base in some communities – combined with distance to key sources of finance and skills as well as from major markets – raise issues of long-term sustainability.
- Supporting infrastructure in remote, rural communities is often insufficient to support the enterprise activity and a thriving labour market. This can include provision of adequate business property sites, common e-commerce/internet centres for the benefit of local enterprises and the wider community, and facilities to support childcare and care of other dependents.

Key messages

- The region has strong levels of rural disadvantage, particularly with respect to access to key services. Peripherality and distance from major population centres exacerbates the problems most Highlands & Islands communities have in economic and population sustainability, to the exception of Inverness and close surrounding areas.
- Although employment rates appear to be relatively high, there are significant issues for some rural areas arising from seasonal, part-time and underemployment. According to the Small Business Survey (2004/05) Highlands & Islands businesses are much more likely to employ workers seasonally (46% versus 24% in Scotland as a whole) and to employ some staff on the minimum wage (22% versus 9%). Seasonal employment. Further, underemployment rates, as measured by the number of people that would like to work longer hours for the same rate of pay given the opportunity, are also much higher in the Highlands & Islands than in Scotland as a whole (10.4% versus 6.6%; Annual Population Survey).
- The economic sustainability of some communities will be weakened by the concentration in low value-added activities and the low rates of new firm formation. Enterprises based in small rural communities can lack access to key services underpinning their development as well as to major markets that would support expansion.
- Some communities lack key facilities to support enterprise development and social cohesion, such as e-skills/commerce facilities and childcare.

2.5 Access and Communications

Related to challenge of fragile communities noted above is accessibility and communications across the Highlands & Islands. Overall, this has traditionally been relatively weak, despite major advances in infrastructure development in recent years, combating the combined challenges of the region's peripheral nature, diverse and often difficult geographical terrain, small and often declining settlement structures and the high costs associated with providing adequate infrastructure. The two major issues to be examined here are:

- transport and connectivity across the region; and
- ICT and communication.

Transport

Transport is a key component of Highlands & Islands development opportunities as the table below shows in relation to the difference in transport provision between the Highlands & Islands and Scotland (HITRANS, 2007).

- Car dependency is higher across the Highlands & Islands with around 50% of people aged 17 or over required to drive every day, well above the Scottish average of 42%.
- Around 75% of households in the Highlands & Islands have at least one car available for private use.
- A lack of public transport opportunities has placed this additional burden on individuals in the largely rural area and has exacerbated rural social exclusion for those without private cars.
- Bus services are far less frequent in the region. The ability to run profitable services has been weakened by the dispersed settlement pattern and the high levels of car ownership.

As Table 16 shows, the dependence on cars varies across the region – with the highest shares in Orkney and parts of the Highlands – but nearly all regions are above the Scottish average. Moreover, the road network is characterised by winding single carriageway roads with few passing places, resulting in relatively long journey times, particularly for trips from the central trunk road spine of the region to eastern and western areas. Across the region as a whole, 14% of people are travelling more than 20km to work, as compared to 10% in Scotland as a whole.

Table 17: Access to transport (2003/04)

	% of people aged over 17 who drive every day	% of Households		
		1 or more cars available for private use	Time taken to walk to nearest bus stop – 14 mins or more	Frequency of most local bus service - 64 mins or over
Argyll & Bute	48	69	5	24
Eilean Siar	46	71	5	37
Highland	49	80	7	19
Moray	55	81	6	8
Orkney	50	77	9	49
Shetland	38	75	10	37
Scotland	42	66	3	4

Source: Scottish Executive (2006) Transport Across Scotland in 2003 and 2004.

The Highlands & Islands has significant deficiencies in different forms of travel.

- The region's rail network is limited, offering no coverage of the region's north-west and with infrequent services on most lines.
- For many island communities, ferries are a critical means of transport, with sometimes limited coverage, seasonal fluctuations in frequency (reflecting tourist demand at different points in the year), a relatively high cost of travelling and a lack of integration of timetabling and scheduling between the different services.

- Air services are also crucial for some parts of the region, especially the islands. Fares are regarded as relatively high – reflecting the more limited market for air travel in the region – and until recently, there has been significant limitations in the region's airport infrastructure. While air traffic has grown in recent years, it lags behind the speed and volume of development in the rest of Scotland.

The issue is a key factor in limiting the region's economic development. Scotland's Transport Strategy, which has promoting social inclusion as a key objective, identified the following issues facing people in rural areas:

- for drivers, a higher dependency on driving and a high proportion of their income is spent on driving costs. Fuel prices are typically higher in the Highlands & Islands than in the rest of the UK, due to high distribution costs and low throughputs in petrol stations;
- for non-drivers, the higher levels of car use mean there is less demand for public transport – those without a car, such as older people, disabled people, women and young people, become more socially excluded; and
- poor access to key services.

The Small Business Survey reports transport issues as a one of the main obstacles to business success in the Highlands & Islands, with 20% of businesses reporting that concern (10% in Scotland as a whole).

Much of the region is also dependent on other forms of key transport, not least the island communities, where ferry services (and supporting port infrastructure) as well as air links (and supporting airport infrastructure) are critical access issues. What is often critical in this regard is the links between these communities and the main transport routes in the region. This reduces the ability of these communities to maintain population and business activity and threatens their sustainability.

ICT and communications

Similar issues relate to telecoms infrastructure. The region has benefited from strong investment in upgrading the region's communications infrastructure to improve coverage to national averages, especially with respect to ISDN and broadband. Indeed, this has been one of the major achievements of previous Structural Funds programmes. Broadband access continues to vary across the region, with the highest share in Shetland (92% of connecting organisations) and Inverness and lowest in Caithness & Sutherland (64%), Lochaber (66%) and the Western Isles (67%) (Scottish Enterprise, 2007).

However, to take full advantage of the investment, critical in an area where distance from major sources of information (eg. RTD and innovation) and markets restricts development, more could be done to improve broadband speed and connectivity and the extent of e-commerce take-up by businesses and individuals (as discussed above). Gaps remain for some communities,

unable to make full economic use of the infrastructure investments made to date.

Key messages

- Transport shortcomings continue to affect the peripherality of much of the region in terms of access. While there are problems facing the region as a whole, there are acute issues for some more fragile and peripheral communities where there are key transport gaps.
- ICT and broadband have enjoyed strong investment in recent years to produce a strong infrastructure basis for businesses and communities to take advantage of the resulting economic opportunities. However, many businesses still lack the skills required to make full use of e-commerce and some communities do not have the necessary facilities to allow them to connect into the full communications network.

2.6 Summary of Key Challenges

As has been stated, this socio-economic analysis has not set out to be a comprehensive analysis of the strengths and weaknesses of the region's economy. Instead, it has sought to identify the issues that are most pertinent to intervention by the ERDF, as defined within the Community Strategic Guidelines and the Structural Funds regulations. In this final section, 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.

SWOT analysis

Regional Strengths

- Employment and economic activity rates across the region are strong with relative low levels of unemployment.
- Overall, the region's population loss has been limited, with relatively strong levels of in-migration, though there continue to be significant demographic losses for particular parts of the region and among young people.
- A high-quality environment and cultural heritage which are the basis for much of the economic activity in the region, including renewable energy, tourism, food and drink and other industries.
- The region has developing research expertises in a number of industries, centred on the emergence of the UHI as a centre for research in the region, such as the life sciences and energy industry research.

Regional Weaknesses

- Economic growth and gross value added (as a measure of productivity) continues to lag Scottish and UK averages.
- A rural-based economy with geographical peripherality, sparsity of population and dispersed settlement patterns is a major constraint on long-term economic development.
- The small size of the Highlands & Islands enterprise base – combined by difficulties in accessing key markets outside the region – suggest that the business base continues to be limited in its ability to expand.
- New firm formation rates remain relatively low in the region with access to skills training and finance as key bottlenecks.
- The levels of research and innovation in the region continue to be low in both relative and absolute terms, arising from a combination of lack of business innovation, and the absence of limited key research centres driving industrial and technological RTD and limited research capacity.
- Some peripheral, fragile communities in the Highlands & Islands are particularly vulnerable to the small enterprise base and suffer from lack of access to key services, market and the community facilities that can underpin both.
- The historical absence of a strong local further and higher education infrastructure has limited the region's capacity to generate research and innovation centres and supply key skills for the development of the business base and contributed to out-migration of young people. The region still lacks its own university and although UHI has been established as a higher education institution, work is still needed to build up research capacity and ensure access across the region, supporting the attainment of full university status.
- Despite continuing investment across the years, the transport and parts of the communications infrastructure of the region continues to provide limited and costly access for much of the Highlands & Islands population because of the region's geography, the dispersion of population and the number of island-based communities.

Regional Opportunities

- The development of the UHI and its network and attainment of university status presents a strong opportunity for the region to gain a local skills and educational anchor for the region through community learning as well as to provide a core of industrial research expertise.
- The emerging renewable energy sector in the Highlands & Islands – and the region's natural resources to enable a wide range of renewable technologies to be developed – is one of the region's future strengths, particularly with respect to marine, wind, biomass and micro-renewables.

- Local use of renewable energy is another opportunity that would benefit both the regional sector as well as local community energy needs.
- The strong natural and cultural heritage of the region provides a set of resources which could underpin a competitive, growing tourism and cultural sector and improvements to the overall productivity and earnings levels of the sectors' workforce.
- The investments in the region's broadband infrastructure provides a good basis for exploiting e-commerce opportunities and addressing the development bottlenecks arising from distance to major markets.

Regional Threats

- Historic population decline has resulted in limited levels of unemployment but presented challenges to the sustainability of particular communities, particularly in the islands.
- The ageing of the population and continued out-migration of young people could present longer-term labour and skills supply problems, given the current tightness of the labour market.
- Lack of investment in key aspects of the region's RTD and innovation capacity – particularly in developing local nodes of expertise for research and skills generation – could result in the region losing competitive advantage in emerging technologies and industries.
- Continuing decline in agricultural and rural industries could reduce earnings levels and the employment opportunities for rural workforces throughout the region, exacerbating population loss – particularly among young people – and consequently, the vulnerability of fragile communities in the region.
- Although improved significantly in recent years, the telecoms infrastructure in the region is limited by the speed, connectivity and extent of usage by businesses and individuals.

Key Programme challenges

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

1. **Removing the barriers and lack of incentives to entrepreneurs and growing enterprises.** To improve the new firm formation and business survival rate, the bottlenecks on new and growing enterprises need to be addressed, arising from lack of finance, support and skills, exacerbated by the spread-out nature of the enterprise community and the peripherality of the region.

2. **Enhancing the sustainable use of the region's natural, historical and cultural environment.** To maximise the economic and social benefits of the region's environmental and cultural heritage, it is important to continue supporting enterprises that will create products and services with higher added value. This will generate more sustainable enterprises and better quality job opportunities, particularly in sectors related to tourism, food and drink, and cultural heritage.
3. **Increasing the low rates of innovation among enterprises.** In common with much of Scotland, the region's enterprises have low levels of RTD expenditure and capacity for pursuing innovation in products, services and processes. There is a challenge in creating a culture of enterprises embedding their future competitiveness in a continuing pursuit of innovation.
4. **Improving the sources of commercial RTD in the region.** Although changing with the creation of the UHI, the region continues to lack strong local centres of research and innovation in the industries and technologies in which it could develop a competitive advantage. To help establish a viable RTD base and support environment for maximising the economic benefits of the region's research capacity, the challenge is for the region to increase the connectivity between the research base and local enterprises.
5. **Improving the quality and coverage of further and higher education in the region by supporting the establishment of the UHI.** The existing investment in the UHI network has provided a strong basis for addressing the research and teaching deficiencies in the region contributing to out-migration and the weak RTD performance of the Highlands & Islands. However, the challenge is to make full use of that investment by addressing any remaining gaps in the network's capacity and ensuring that it is fully exploited for the economic development of the region through the attainment of full university title.
6. **Developing full exploitation of technological developments in key sectors.** The opportunity to take advantage of technological developments and opportunities in a number of key sectors and maximise their economic, social and environmental value, could make important contributions to the region's economic development. This is particularly true of the renewable energy, related energy and life science industries.
7. **Increasing business development in fragile and peripheral areas.** Increases in the capacity of disadvantaged peripheral communities to attract and sustain business activity, more effective mechanisms for encouraging investment in, and service delivery to, the region's fragile communities by the enterprise sector need to be developed. This would help to ensure the survival of such communities in the face of continuing population loss, which is essential in minimising regional disparities across the region and the loss of regional social and economic cohesion.

8. **Improving sustainable community infrastructure in fragile and peripheral areas.** Linked to the previous challenge is limited access to key services and facilities in some communities, which contributes to population loss and a weakened enterprise and employment base. Although ERDF funding is limited in its scope for providing basic services, the challenge is clear with respect to key communal infrastructure that underpins the economic and social development of fragile communities, especially with respect to infrastructure supporting local enterprise development.
9. **Addressing the remaining bottlenecks in 'access' infrastructure across the region where accessibility issues are acute.** Despite the legacy of extensive investment, the region's acute peripherality means that there remains considerable scope for improvements in transport and telecommunications infrastructure – critical in enabling access by communities, enterprises and individuals to market, educational and other opportunities.

These challenges will form the basis for the development of the Programme strategy and individual priorities set out in Chapter 4.

3. POLICY BACKGROUND

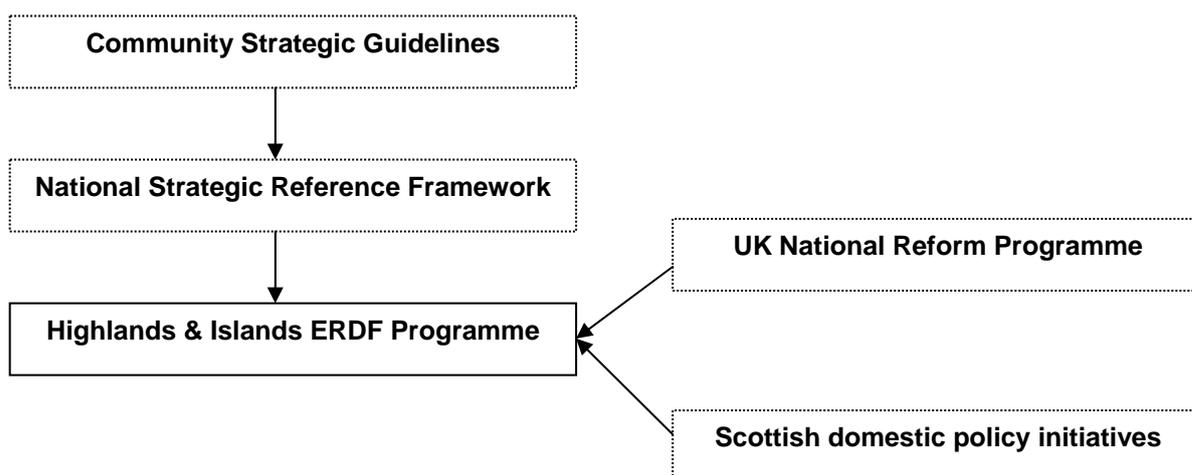
3.1 Policy Context

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

- the Community Strategic Guidelines, which sets the indicative framework for the Cohesion Policy in support of the EU's growth and jobs commitments;
- the UK's National Strategic Reference Framework, as specified in Article 27 of the General Regulation, in which the chapter on Scottish Structural Funds goals provides the overall framework within which the ERDF Programme must fit;
- the UK's National Reform Programme (NRP), 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 array of domestic policy initiatives available in the region.

Figure 2 illustrates how these different policy tiers should combine in the Programme.

Figure 2: 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 to ensure consistency of approach. It will form the basis of the priority structure set out below. The socio-economic analysis considered the region from three perspectives: the enterprise sector;

communities; and basic provision of infrastructure (especially relating to accessibility). The following section shows how the existing policy framework addresses these issues currently. 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.

Enterprise, RTD and innovation

EU Level

Article 25 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.

Within the Community Strategic Guidelines, there are several Guidelines where the challenges identified in the socio-economic analysis feature strongly.

- Facilitate innovation and promote entrepreneurship. The Guideline notes that there is a widespread need to encourage entrepreneurs to set up enterprises as well as to provide a support environment for their start-up and growth. This maps most clearly onto the first key Programme challenge, which highlights the barriers and lack of incentives for entrepreneurs in the region and the problems faced by businesses more widely.
- Moreover, an environment that encourages the replenishing of the enterprise base with new firms and provides support for those enterprises with strong growth potential is a key source of regional competitiveness. Indeed, the Guideline notes that "*[The co-financing of investments in innovation] should be the main priority in the regions covered under the Regional competitiveness and employment objective*".
 - Programme challenge 1: Entrepreneurship and support for growing enterprises was identified in the socio-economic analysis as a key area for intervention in the region.

- Programme challenge 2: The sustainable use of the region's natural and cultural assets could also help to underpin actions in support of the Guideline, 'Strengthen the synergies between environmental protection and growth'.
- Programme challenge 3: The need to increase the innovation capacity of the region's enterprises was highlighted in the socio-economic background.
- Programme challenge 4: Investment in the region's key research centres should complement support to improve innovation rates in enterprises.
- Improve access to finance. One aspect of the support environment for growing enterprises is the financial resources available to growing enterprises. The Guideline acknowledges that Cohesion Policy can contribute to regional economic growth by improving access to private equity and venture capital. As with the first Guideline, again, there is a clear link to Programme challenge 1, where access to finance is one of the issues hindering new firm formation and survival in the region.
- Increase and improve investment in RTD. The Guideline outlines the importance of strengthening co-operation amongst enterprises and research centres, supporting RTD undertaken by businesses and developing the overall RTD capacity of the region. Programme challenges 3 and 4 in the socio-economic background points to the low levels of RTD investment in the region's economy.

In addition, the Guidelines recognise the distinctiveness of rural development challenges: as the document notes, "*cohesion policy can also play a key role in support of the economic regeneration of rural areas*". It specifies the importance of Structural Funds support for services of general economic interest that can improve conditions in rural area, an integrated approach to supporting tourism and the development of development poles in rural areas, particularly around economic clusters based on local assets. As the Highlands & Islands region is chiefly characterised as a rural economy, all the Programme challenges reflect this need for distinctive action in a rural context.

UK and Scottish Levels

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 Scottish chapter sets out the challenges and sets of priority actions for the ERDF Programme under the Convergence Objective. Low firm formation rates and deficiencies in the knowledge and innovation system are recognised in the NSRF as the key needs for Scotland as a whole. It is acknowledged as a priority action for the ERDF Programme.

As part of the goal of promoting productivity growth, the UK's National Reform Programme emphasises the need to improve entrepreneurship and access to finance, particularly for businesses. With respect to RTD and innovation, the importance of addressing the challenge is reinforced in the UK's National Reform Programme. The UK Government's overall approach to encouraging national economic growth is based on improving productivity performance through an integrated series of policy measures. One of the main drivers of productivity is the capacity to generate and make full economic use of science and innovation. In pursuit of this goal, the National Reform Programme highlights the need to encourage greater private and public investment in RTD – particularly in the enterprise sector – as well as investing in a research base that is responsive to the economy, not least in sustainable industries such as renewable energy. It has set the goal of increasing UK public and private investment in RTD to 2.5% of GDP by 2014. In addition, the Programme has an aspiration of achieving an 80% employment rate.

The UK approach is echoed in Scotland. The goal of improving RTD and innovation performance and improving new firm formation rates in Scotland is central to the Scottish Government's major strategies supporting economic development. 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 four key outcomes:

- 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 public and enterprise sector in 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.

It will be seen in Chapter 8 below that the enterprise development objective in the Highlands & Islands is consistent with the programme's horizontal themes, especially the key environmental sustainability dimension. The Scottish Green Jobs Strategy outlines how Scotland should seize the business opportunities and advantages arising from sustainable development with a view to creating a vibrant, low-carbon economy and the country being a location 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. In this context, there are significant opportunities in the Highlands & Islands.

The role of the developing University of the Highlands & Islands for the region's RTD capacity has also been recognised in the Science Strategy for Scotland, which acknowledges the potential importance of the institution to improving the region's research infrastructure.

On the role of renewable energy, the Securing a Renewable Future document by the Scottish Government sets out Scotland's approach to meeting its renewable energy commitments, particularly a target of 40% of its electricity needs from renewable sources by 2020. For rural areas, the forthcoming National Transport Strategy will set out Scotland's plans through three strategic outcomes: improving journey times and connectivity; reducing emissions; and improving access and safety. Both strategies suggest a number of areas where complementary support from Structural Funds can have a more strategic impact. Similarly, with respect to ICT and communications infrastructure, A Smart Successful Highlands & Islands discusses the importance of anticipating future change in telecoms technologies and working towards improving the speed and capacity of the existing infrastructure in the area.

Lastly, the Scottish Government tourism strategy – A New Strategy for Scottish Tourism – identifies the key role that the sector has in rural areas such as the Highlands & Islands, where the cultural and natural assets of the region require some further investment and support for full sustainable commercial use to be made.

Another major strategy that will shape the policy context for the Programme is A Science Strategy for Scotland, published in 2001. Among its objectives, the strategy recognises the importance of maintaining a strong science base

fully connected to UK and international activity and funding sources as well as increasing the effective exploitation of scientific research to strengthen Scottish businesses. Both have been identified as key challenges for the Highlands & Islands. At the time that the Programme was being developed, a new version of the science strategy was under preparation.

The socio-economic analysis identified tourism as a key sector for the region. Structural Funds activity in support of tourism should complement the 2006 Tourism Framework for Change strategy while demonstrating clear added value. The strategy sets out a range of targets, including the coverage of tourism businesses that have been quality-assured and making use of e-business and a Tourism Innovation Group and local networks of businesses, Local Authorities and other bodies will encourage the development of innovative ideas, practices and products among tourism operators. One of the instruments of the strategy is the creation of local Area Tourism Partnerships to identify important local challenges for the sector and work with local businesses, culture/heritage organisations, Local Authorities and other bodies to share best practice and identify key actions to take forward. Structural Funds-supported projects in support of tourism should take account of the priorities and actions set by these Partnerships and show the value added of EU funding.

For the region, cultural policy is another significant policy area of which account needs to be taken because of the importance of the cultural industries to the region's economic growth. Scotland's Culture set out in 2006 national and local planning frameworks for the development of cultural assets within Scotland as a whole. This includes commitments by Local Authorities to include cultural development in the community planning process and the creation of a new cultural agency, Creative Scotland, to take forward national goals and projects. Within the Highlands & Islands, Bord na Gaidhlig – the Gaelic Development Agency, set up in 2003 – has a particular role in encouraging development projects for making full economic use of the region's linguistic and cultural assets.

Finally, The National Plan for Gaelic will also inform development of education and training opportunities and developing full economic benefits from the regeneration of the 'Gaidhlig' language and culture. This important linguistic and cultural sector has been recognised in successive independent studies as a significant economic driver, ideally suited to take advantage of the fast growing opportunities within the area of new media, due to the convergence of cultural content and new technologies, along with a world-wide rise in demand for cultural products. The cultural sector is recognised as one of the fastest growing economic sectors in the EU.

Highlands & Islands Level

The Scottish Government's policy for economic development through the enterprise sector in the Highlands and Islands is set out in A Smart Successful Highlands & Islands, which was also refreshed in 2004. The strategy sets the framework for development within the Highlands & islands

through five critical factors:

- population: recognising the importance of increasing the number of people living, studying and working in the region;
- place: building on the strong quality-of-life arising from the region's natural assets;
- productivity: addressing the productivity challenge of the region;
- pay: increasing the low earnings levels throughout the region; and
- prospects: contributing to the long-term sustainable growth of the Highlands & Islands.

The document has a vision consisting of four outcomes:

- strengthening communities: by creating community assets, building local capacity and leadership, and enhancing natural and cultural heritage;
- developing skills: by improving the operation of the labour market, giving the best start to all young people, developing those already in work and reducing economic inactivity;
- growing businesses: encouraging a culture of enterprise and more businesses of scale, increasing innovation and the commercialisation of research, fostering success in key sectors, and using e-business to create business advantage; and
- global connections: increasing business involvement in global markets, making the region a globally-attractive location, improving connections to the rest of the world and encouraging more people to live, study and work in the Highlands & Islands.

As part of the third outcome, the challenge of increased commercialisation of research and innovation is explicitly defined with the need to increase levels of research and development spending as central to improving the regional economy, particularly in the context of a region with limited indigenous sources of RTD. In this context, investment in key growth industries and in the development of the UHI and its network is seen as a priority. The strategy also notes the particular difficulties in developing and sustaining entrepreneurship and the importance of increasing the pool for new businesses in the region. Lastly, the use of e-business to increase business advantage is explicitly targeted in the strategy, recognising the importance of the region's enterprises taking full advantage of distance-reducing technologies to develop markets and access innovation.

Given the strong links between specific industries and business RTD investment, the industries fostered in the Highlands & Islands will have a major impact on the region's RTD performance. These industries have been set out in the socio-economic analysis above. The strategy also sets out the goal of ensuring the UHI acquires university status and develop its teaching and research capacity and its role as a wider catalyst for economic growth. This approach also comes through in the mission statement of the UHI

where, amongst others, it aims to develop innovative approaches to learning and teaching which will enable all students to acquire the personal and professional capabilities needed to empower them as life long learners and to contribute to the well being of their communities. The UHI also aims to establish an information and communication technology infrastructure and to expand its research capability to advance knowledge, support student learning and contribute to social and economic development. Further work will be done to bring learning opportunities into remote areas through the development of community learning networks, developing a unique model for university level provision, specifically tailored towards the needs of the Highlands & Islands. Particularly significant here is the progress made towards 'Taught degree awarding powers' with a decision on full university title expected towards the start of the new programming period .

Community sustainability and access and communications

EU Level

The sustainability of remote and disadvantaged communities can require a combined and sustainable economic, physical, social and environmental transformation of areas. In a Lisbon perspective, it is essential that all areas can contribute to the jobs and economic growth agenda. The Community Strategic Guidelines recognise the distinctiveness of these challenges. It is explicitly noted that within the Structural Funds, "*actions supported [should] include measures to promote entrepreneurship, local employment and community development*". This is recognised in the two key challenges associated with community regeneration:

- Programme challenge 7: supporting enterprise development – including entrepreneurship and local employment growth – in fragile communities across the region;
- Programme challenge 8: improving the infrastructure underpinning the sustainable economic development of fragile communities; and
- Programme challenge 9: addressing the transport and telecommunications bottlenecks that remain in the region, especially those causing particular development challenges to fragile communities.

Moreover, as already noted, the Guidelines highlight the importance of addressing the specific challenges of rural economies such as the Highlands & Islands.

UK and Scottish Levels

Community sustainability is further underlined by the National Strategic Reference Framework which points to community economic development as an important element of the Structural Funds strategy in Scotland, particularly through the priority action for 'Reinforcing community sustainability'. Moreover, other infrastructure needs were recognised with particular respect

to transport and broadband connectivity within the priority action, 'Improving economic infrastructure'.

The National Reform Programme recognises that community sustainability is an important foundation to economic growth in different regions and requires an integrated policy approach. The NRP makes special reference to Closing the Opportunity Gap, the Scottish Government strategy aiming to prevent individuals and families from falling into and to provide routes out of poverty.

Closing the Opportunity Gap is the Scottish Government 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 ERDF Programme embodies – directly as well as indirectly – these Closing the Opportunity Gap objectives. The strongest links are through the fourth of these objectives and key Programme challenges 3 and 4.

In 2006, Closing the Opportunity Gap was supplemented by 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.

Key instruments have been established to take forward these strategies. The Community Planning Partnerships (CPPs) – one for each Local Authority area – set out through Regeneration Outcome Agreements 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.

As a devolved matter, the infrastructure needs of the region have been identified through a number of strategies. Overall, the rural nature of the area is addressed by the Executive's strategy for rural development, Rural Scotland: A New Approach sets out several major objectives for the development of rural areas: developing a strong and diverse rural economy; harnessing traditional strengths with an appetite for change in order to provide opportunity to young people; building a rural Scotland where everyone can enjoy a decent quality of life; developing a rural Scotland where people enjoy public services that are accessible, high-quality and with the greatest choice; and maintaining a rural Scotland where the natural and cultural heritage flourishes in all its diversity.

Similarly, development would take place within the context of the Scottish Sustainable Development Strategy, which 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 life-cycle 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

These four principles have informed the development of the ERDF Programme. For example, sustainable consumption will be reflected in a commitment to funding and promoting greater 'greening' of enterprises and compelling projects to consider the consequences of their procuring choices. The active support of renewables would take forward the commitment to climate change and energy use. Natural and environment resource protection would be reinforced by supporting projects that give such objectives strong economic development grounding in making full sustainable economic use of environmental assets.

Economic infrastructure needs have been set for Scotland as a whole. The Infrastructure Investment Plan, Building a Better Scotland, provides a framework for spending up until 2008 in areas such as higher and further education, infrastructure in support of community economic development, healthcare and water provision. The new National Planning Framework provides a framework for significant infrastructure investments and economic development and recognises the need to address key areas such as higher and further education, transport and renewable energy. The Programme has taken account of the areas where such spending is taking place and identified the key areas of additionality where Structural Funds can provide clear added value.

The National Transport Strategy sets out the transport priorities for Scotland, recognising the role that transport has to two of the sets of Programme challenges identified in the socio-economic analysis: promoting economic growth by building, enhancing, managing and maintaining transport services, infrastructure and networks to maximise their efficiency; and encouraging social inclusion by connecting remote and disadvantaged communities and increasing the accessibility of the transport network. The latter aim is particularly relevant in the Highlands & Islands, where accessibility issues are acute. The Strategy states that the development of transport infrastructure needs to take place within a sustainable development framework, minimising

the environmental impacts of developments and encouraging the use of more sustainable forms of transport.

Highlands & Islands Level

A commitment to strengthening communities features strongly in A Smart Successful Highlands & Islands, setting out a commitment to creating strong and vibrant communities that have the capacity to retain population, encourage young people to return and attract in-migrants. Strong and vibrant communities with sustainable communal assets are seen as central to underpinning economic development throughout the region. It is reflected in the positive targeting promoted by the strategy, recognising the need to balance supporting the important role of Inverness as a driver for the region with the importance of distributing economic benefits across the Highlands & Islands. Within the strategy, there are two types of priority area: 'fragile areas', which are those with economic and social structural problems leading to long-term economic decline; and 'regeneration areas', which are those experiencing short-term economic shocks resulting in sudden employment losses.

The Programme also complements the plans of local authorities from the area. The Highland Community Plan, which was drawn up by a partnership of key agencies and in wide consultation with public, private and voluntary sector organisations and local communities, puts the emphasis on developing sustainable communities. An important component is the development of prosperous communities and the plan highlights, amongst other things, the need for investment to widen and strengthen the economic and skills base, improvements to infrastructure and the environment, increased research activity, support for traditional industries, developing a quality tourist destination and giving local communities control over the use and management of natural resources.

Other examples of complementing aims are evident in the various economic development plans drawn up at the local level, applying not just to the infrastructure challenges for the programme but community sustainability as well. For example, the Orkney Islands Council's Corporate Strategic Plan 2005-08 – seeks to encourage and harness individual and community enterprise, to ensure that development is sustainable in economic, social and environmental terms and to maintain and develop the existing industries and the diversification of the island's economies.

Similarly, Shetland Island Council's Economic Policy Statement states that the Council's main aim through the provision of economic development services is "*to maintain and enhance prosperity in Shetland by enabling businesses, communities and individuals to attain their full economic potential*". This is reinforced within subsequent Operating Principles of 'Social Inclusion', with the aim of promoting an inclusive society, and 'Sustainable Development' whereby the Council will endeavour to find sustainable solutions for economic development.

Similar concerns are evident in the Structure Plan of Moray Council where the aims are to promote economic growth and development, spreading the benefits of that growth across the community. Special emphasis is placed on underpinning development by promoting sustainability and protecting and conserving the valued elements of the natural environment, in part by the use of energy efficiency and the use of natural resources in a sustainable manner. Addressing key elements of these plans can be enhanced through selective and considered use of Structural Funds.

3.2 Lessons from 2000-06 Programming

Structural Funds programming in Scotland has always built on the positive experience of previous programmes, maintaining the good practice while adapting to new circumstances. In developing the ERDF Programme for the Highlands & Islands region for 2007-13, the lessons of the previous use of European Regional Development 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 updates of the programme for 2000-06;
- the report of an internal Value Added Group on how to increase the value added of future Structural Funds programmes; and
- the Hall Aitken report on Structural Funds delivery options, 'Making Every Euro Count'.

Mid-term evaluation update

In 2005, the 2000-06 Highlands & Islands 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 ERDF Programme for the region.

The overall aim of the Programme was to secure the sustainable economic regeneration of the area. An initial analysis of the data for the Programme suggests that progress was good. The clear majority of targets has been exceeded for measures, or at least were well on their way to being met. Stakeholder views on programme performance reflected less the progress of the Programme with respect to its targets than a frustration with the system for measuring performance. Numerous comments were made about the inappropriateness of some indicators to particular measures, difficulties in aggregation across the Programme as a whole, the timespan for suitable results and impacts to become manifest under some measures, the lack of proper account of 'softer' impacts (notably with respect to employability support) and the value of more qualitative, case-study approaches to assessment. These views have been important in informing the development of the 2007-13 evaluation framework.

Financial take-up of some of the measures had been sluggish for some of the areas where the socio-economic analysis identified remaining challenges to the economy – for example, renewable energy as a result of the slow

development of appropriate projects. By the end of the programming period though, there had been full take-up of the relevant measures, suggesting the need for better project planning and coordination to ensure that the relevant projects are likely to come forward to absorb the funding.

In the thematic areas examined by the update, the Programme showed strong progress. Environmental sustainability and equal opportunities were strongly encouraged by the Programme, with important case-study projects showing how the horizontal themes could be more widely embedded in domestic policy. Similarly, the Programme made important strides in supporting social inclusion with clear success in adding value to projects and supporting job entry for disadvantaged beneficiaries. However, this impact was largely concentrated in particular areas (the Highland area) as well as on particular beneficiary groups, reflecting the sparse and dispersed population and underlying project demand in this policy area.

The update emphasised that the Highlands & Islands Programme was conceived as a *transitional* programme. The Programme aimed to achieve a key strategic legacy that would not necessarily achieve the goals of full economic regeneration on its own, but provide a strong platform for economic development policy to build on in the period after 2006. The existence of that legacy was already apparent in the review of programme performance above, but much of the achievement would be felt in the Programme's combination of support for critical keystone projects, such as the UHI and broadband development. The same principles have been extended into the development of the 2007-13 Programme.

Value Added Group: 'Adding Value, Keeping Value'

As part of the preparations by the Scottish Government 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 from the 2000-06 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.

- 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 priority descriptions in Chapter 4.*
- 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 priority descriptions 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 coordinated through a series of activities targeting a common goal. Whether the coordination 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 Government 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 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:

- single-stream funding: this principle lies behind the use of Strategic Delivery Bodies, as set out in Chapter 7;
- area and local outcome agreements: the encouragement to a partnership-based approach to deliver the Programme as set out in Chapter 7 reflects this;
- a more negotiated decision process: the projects to be carried out by the Strategic Delivery Bodies will be negotiated with the Managing Authority and the Programme Monitoring Committee; and
- thematic partnerships: in line with the second and third bullet points, projects will be encouraged to develop partnerships and show thematic complementarity in the supported activity.

4 STRATEGY AND PRIORITIES

4.1 Programme Vision

The strategy for the ERDF Convergence Programme proceeds from the identification of key challenges within the socio-economic analysis (set out in Chapter 2) as well as the need for actions to fit with EU, UK and Scottish policy frameworks and the positive 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 – particularly with respect to key industrial sectors and growth drivers such as emerging research strengths in areas like renewable energy and the richness of its cultural, natural and environmental assets– while recognising a range of significant weaknesses and challenges, deriving from low productivity, low new firm formation rates, limited commercial application of research and innovation and the challenges arising from a peripheral region with sparse settlement patterns and dispersed business base. Nine challenges have been identified:

Enterprise challenges

1. Removing the barriers and lack of incentives to entrepreneurs and growing enterprises.
2. Developing full exploitation of technological developments in key sectors.
3. Increasing the low rates of innovation among enterprises.

Key driver challenges

4. Improving the sources of commercial RTD in the region.
5. Improving the quality and coverage of further and higher education in the region by supporting the development of the UHI.
6. Enhancing the sustainable use and long-term economic value of the region's natural, historical and cultural environment.

Community challenges

7. Increasing business development in fragile areas to underpin the sustainability of communities across the region.
8. Improving community infrastructure in fragile areas to support sustainability.
9. Addressing remaining bottlenecks in 'access' infrastructure in parts of the region where accessibility issues are acute.

The Programme vision has been developed to address these challenges within the limited and diminishing resource profile for the 2007-13 period. The vision is aspirational and not limited by the period, scope or limited scale of the new Programme. It looks to the long-term future of the Highlands & Islands, twenty or more years ahead. It depends as much on the commitment

of, and progress by, partner organisations and the creative use of Structural Funds. It is born out of the recognition that the region's future is dependent upon social, economic and environmental factors operating both within and outwith the region. There is a recognition of the benefits which partnership can bring to the area. In essence, partnership is the key to the vision and the key to delivering this Programme.

Although the Funds can contribute to the future development of the Highlands & Islands, the Programme, with its relatively short duration and limited funding, cannot alone solve the problems of the region. The Programme will operate within a much broader context and contribute to a wider, longer-term aim of sustainable socio-economic and environmental development of the region.

This concept for the future is embodied in the Programme vision:

The vision for the Highlands & Islands is of prosperous, inclusive and self-sustaining communities, where the unique cultures, traditions and environments are enhanced and the region makes a distinctive contribution to Scotland, the UK and the EU competitiveness through supporting people, place and prosperity.

The shared vision paints a future where:

- people: the people of the Highlands & Islands have access to employment and a full range of learning opportunities and social provisions thereby enabling all to achieve their personal potential and contribute fully to the economic and social well-being of the area;
- place: the people and communities of the Highlands & Islands have a strong and confident sense of identity, purpose and empowerment to reduce the problems caused by peripherality and insularity; and
- prosperity: the people of the Highlands & Islands generate sustainable economic prosperity and employment opportunities through innovative and outward looking action to increase incomes and prosperity of the Highlands & Islands and reduce the social and economic disparities within the region.

For the ERDF programme, €121.862 million has been allocated for 2007-13. To appreciate the scale of this funding, it is useful to compare with the Additionality Table provided to the European Commission, showing annual average expenditure in the Highlands & Islands over the periods 1994-99 and 2000-06. From the total resources identified, the contribution from this Programme is €22.5 million per annum compared with €956.8 million per year (excluding the EU contribution) for national public expenditure in economic development generally. The EU contribution in the Highlands & Islands is thus about 2%: ie. a small but significant proportion. Another meaningful benchmark is Highlands & Islands Enterprise's annual budget for enterprise support and wider economic development of some €180 million. Consequently, in order to achieve objectives it will be necessary to work with

other funders to influence their programmes, align investments and add value through Structural Funds.

4.2 Programme Objectives

The Objectives that follow reflect the region's current economic and social circumstances as set out in the socio-economic analysis, the accepted need to concentrate the limited resources available and to work closely with partner organisations. It is also critical to recognise that this could be the last major programme for the region. The Programme therefore aims to support activity of potential benefit to the region beyond 2015 – the effective end of the active phase of the Programme.

The Programme is founded on a number of key principles that will influence the types of actions to be supported. These comprise:

- partnership – the Programme will be implemented by a close partnership of the region's agencies with enterprise, community, educational, voluntary sector and environmental interests;
- additionality – the Programme will ensure effective use of Structural Funds by providing assistance where projects would not otherwise proceed, or would do so at a lesser scale and/or later date;
- programming – the Programme will be delivered in a transparent way through the explicit integration of activities each having clearly defined and expressed inputs (financial resources) and outputs (targets) – a further component of programming will seek to ensure the most effective sequencing of action to deliver maximum impact of investments; and
- concentration – the Programme will target resources on the region's key sectors and its more fragile areas through projects which produce the maximum impact for the resources deployed.

Together these four principles will establish the framework for the promotion of internal and external cohesion of the Highlands & Islands in conjunction with the strategic vision. The Programme vision operates through three sets of interlocking Objectives, reflecting the key challenges highlighted in the socio-economic analysis:

1. **Enhancing business competitiveness, commercialisation and innovation**
2. **Enhancing key drivers of regional and sectoral sustainable growth**
3. **Enhancing sustainable growth of peripheral and fragile areas**

As noted, with limited resources, the Funds can have a maximum impact in the region by improving the competitiveness of key sectors. The socio-economic analysis identified a range of key economic sectors and key growth drivers where investments from previous Programmes have made significant contributions to creating the foundations for self-sustaining growth into the

new programming period and beyond. As set out in the socio-economic analysis, the key economic sectors are currently:

- renewable energy, such as wind, hydrogen, wave, tidal and biomass and other energy-related activities;
- tourism and culture-based industries;
- food and drink;
- forestry;
- other energy-related activities, particularly activities in the supply and technical support of nuclear decommissioning (although nuclear decommissioning itself will not be an eligible activity); and
- life/health (and other) sciences.

In the food and drink and forestry industries, the Scottish Rural Development Programme will be responsible for developing new products rather than the ERDF Programme, but other projects to support the sectors – including the commercial exploitation of those products – will be eligible under Priority 1.

The Highlands' & Islands' various industry sectors make radically different contributions and demand tailored strategies for competitiveness, growth and sustainability. Some, in science and technology, offer huge wealth creation potential through intellectual property development. Yet others like tourism will remain one of the most important sectors of the economy in the long term and its further development around sustainable development principles is a clear opportunity for the area. Over the course of the programming period, new growth sectors and opportunities may well emerge in addition to those identified above. Consequently, the Programme will give emphasis to supporting growth in these sectors, but needs to retain the flexibility of shifting resources to develop business growth and RTD/innovation capacity in emerging growth areas as they become apparent.

The section below expands on each of the Objectives, indicating in particular where the Structural Funds can bring value added.

Objective 1: Enhancing business competitiveness, commercialisation and innovation

The socio-economic analysis identified a range of issues relating to enterprise growth and the innovation capacity of the region. Innovation should not be separated out from wider enterprise growth processes. At the heart of the Lisbon Agenda is the recognition that innovation underpins all sources of regional economic competitiveness and not just technological. This is particularly true of enterprise development, whether it is the emergence of new enterprises on the back of technological, product or service innovations or the ability of existing enterprises to grow and renew their competitive vigour by improving the speed and adaptability of their sources of innovation. Consequently, in regional terms, it is critical that there is a strong enterprise base able to make full commercial use of the region's

research assets – indeed, support for both should recognise the process of continuous ‘dialogue’ that takes place between RTD/innovation sources and users.

The first Objective recognises that while there are a number of elements underlying the region’s economic competitiveness, sustainable growth will only be possible if the region has a strong innovation system linked to a thriving enterprise base with the skills, resources and capacity to make full use of RTD and innovation. Central to this is ensuring that the region has a strong base of successful growth enterprises that are capable of developing new export markets and strong research and innovation potential. The socio-economic analysis drew attention to the weakness of the enterprise base in the region and its difficulties in replenishing itself. The Smart Successful Highlands & Islands strategy described in Chapter 3 reinforces the importance of this goal to the region.

Hence, the Objective focuses on the challenges facing individual enterprises, particularly businesses with high growth potential. As highlighted in Chapter 2, such challenges include:

- supporting the capacity of enterprises to take advantage of research;
- developing their aptitude and ability to develop their own innovation capabilities;
- supporting export and growth strategies; investments to improve enterprise productivity;
- addressing specific industrial property gaps;
- encouraging start-ups and supporting new firms;
- where appropriate and market gaps are identified, facilitating access to finance, particularly when linked to growth strategies; and
- promoting their ability to make use of existing technological resources, notably e-commerce.

This is particularly true in the peripheral and fragile parts of the region, where the challenges facing individual enterprises are exacerbated by the remoteness of their location and the lack of supporting services in the surrounding communities. The Objective will also have a key role in supporting social enterprises in such areas, as these can provide key support services in sustaining vulnerable communities.

As a result, the Objective has been set as:

to increase the sustainable growth of the Highlands & Islands economy through expanding the number, diversity and value of output of its enterprises, focusing on key sectors.

Objective 2: Enhancing key drivers of regional and sectoral sustainable growth

With limited funding, the maximum impact of the Funds can be in supporting a handful of key drivers of sustainable growth identified as being critical to the region's economic prospects:

- the core research and training capacity of the region, consisting of the UHI and its network working towards the goal of university status;
- the capacity of the wider research infrastructure of the region to improve research and innovation in the region; and
- the sustainable economic use of the natural and cultural assets of the region.

What distinguishes these drivers is their importance in underpinning the competitiveness of the main key economic sectors identified above as well as the regional economy as a whole.

The first driver is the importance of establishing a university based in the region. As outlined previously, establishing an indigenous university in the Highlands & Islands is critically important for the economy and sustainability of the region. The UHI's unique model, with 15 academic partners across the region and working with a further 50+ learning centres, is increasing access to all levels of education and training, reaching into remote island and rural communities as well as the more populated areas. Thus, opportunities for vocational training, higher education and research are being extended to individuals, businesses and communities throughout the Highlands & Islands, overcoming geographical exclusion. Although other higher and further education bodies will be eligible for funding through this Objective, the UHI and its network will be significant beneficiaries of the funding.

The competitiveness and growth potential of the region is closely linked to the continuing development of a co-ordinated research, technology and learning resource in the UHI and its network. Developing the UHI and its network as an integrated series of centres of research excellence for key economic sectors and technologies should be one of the primary goals of this Objective. Moreover, the UHI has a key role in providing the training and learning needed to enterprises and communities that will help ensure that its research strengths are fully exploited over time. Widening access to training, learning and research opportunities, particularly to geographical areas which have previously been excluded, is a key aim. Innovative use of new and emerging e-learning technology will be invaluable in achieving critical mass, maximum coverage and increasing capacity across the region. The UHI already attracts world-wide attention for its use of technology in education and widening access (part funded by Structural Funds); further investment through next generation, for example tele-presence, will help to maintain this cutting edge and, through its application, allow development of research excellence in the use of technology in pedagogy.

The second driver is the wider research infrastructure of the region. While improving the research capacity of the UHI is central to its ability to gain university status, it is important to recognise the role of other research centres in the region lying outside the UHI network, such as the European Marine Energy Centre in Orkney. Supporting capacity-building in these centres is a distinct but important strand of activity if the overall research and technological base of the competitive sectors of the H&I economy is to be enhanced.

The third key driver of sustainable growth in the region is its unique natural, historical and cultural heritage. These assets, as 'unique selling points' are the basis of a competitive advantage and therefore are directly linked to opportunities for the cultural and creative industries and tourism sectors in the region – investing in the region's ability to make full use of these resources will be an important element of the programming period. Building on the substantial direct investment in the resources themselves in previous programmes (eg. tourism sites), the attractiveness of the environment and innovative use of new technologies, it will aim to increase the range and quality of jobs and productivity of the sectors (such as tourism) through productive use of these assets.

As a result, the Objective has been set as:

to enhance the sustainable value of the key drivers of the regional economy, specifically the UHI, the wider research capacity of the region and the use of the region's natural, historical and cultural assets

Objective 3: Enhancing sustainable growth of peripheral and fragile areas

Community sustainability is as critical to the long-term well-being and competitiveness of the Highlands & Islands as the strength of its economy. Community regeneration can make essential contributions to the region's economic performance by distributing growth across the area and acting as local growth poles within a diverse region. Parts of the region have experienced severe problems of sustainability, undermining internal cohesion and the scope for all parts of the region to contribute to sustained economic growth. Structural Funds can support community efforts to strengthen their sources of local competitiveness, retaining population (especially young people) and attracting in-migrants from outside of the region. These areas face a range of different problems; a co-ordinated, targeted approach to community regeneration is therefore essential, focusing on gaps in shared services and infrastructure that undermine the competitiveness of local enterprises and threaten the longer-term sustainability of fragile areas. This will be distinct from the support for individual enterprises envisaged under Objective 1 by addressing the underlying shared services and facilities that the community may require to improve its economic development prospects.

Community sustainability also hinges on issues of access. If enterprises across the region are to thrive and their sustaining communities to survive,

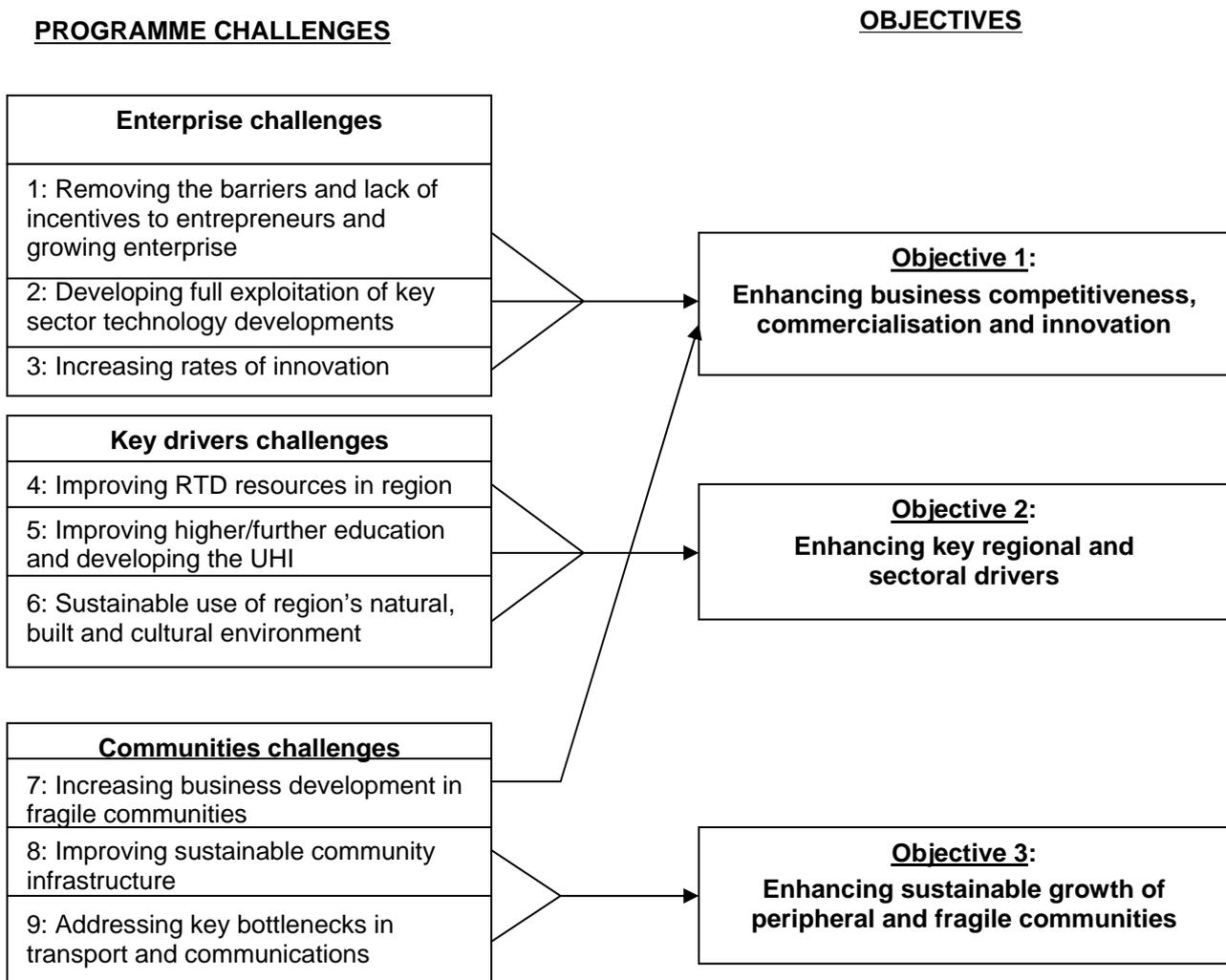
continued efforts will be needed to ensure that limitations in transport and telecommunications do not inhibit development. The scope available under past programmes for supporting widespread development are not possible in this programming period in light of the limited resources. However, there remains a role for the Funds in targeted, small-scale support for communities, enabling them to make better use of the existing infrastructure – for example, local developments to support better port facilities or inter-modal connections between different forms of transport or local telecoms facilities to join to the region’s broadband infrastructure. The goal is not to extend the infrastructure developments of the past, but to target investment at ways of ensuring that the full value added of past Structural Funds investments are distributed across the region.

As a result, the Objective has been set as:

to support sustainable growth in fragile and peripheral communities of the region in order to contribute to Lisbon goals

Relationship between Programme challenges and Objectives

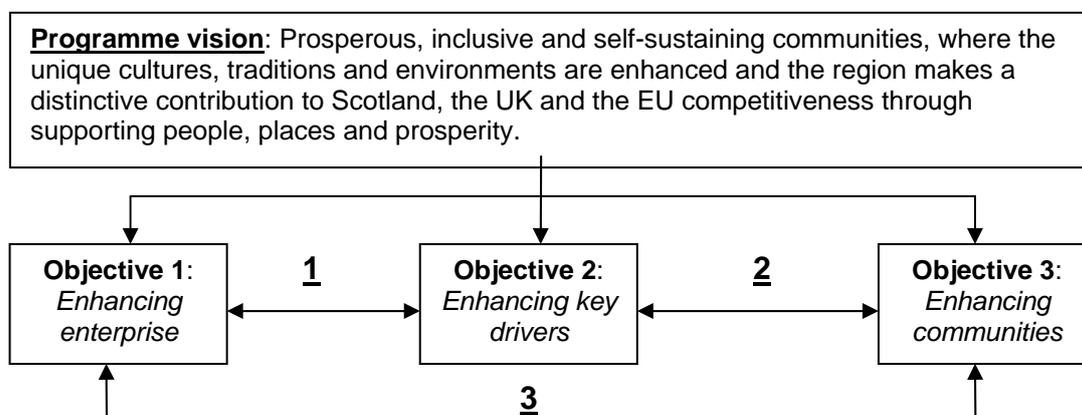
Figure 3: Programme challenges and Programme Objectives



While these are entirely complementary, Objectives 1 and 2 are particularly inter-related as they bring together engagement with the business sector to enhance competitiveness with the necessary development of the underlying research capacity and cultural and natural assets (as key growth drivers). At the same time, tackling exclusion, including geographical exclusion, brings people closer to opportunities being pursued under Objectives 1 and 2. Figure 3 demonstrates how the key challenges combine into these Objectives.

The Objectives do not work in isolation – each not only makes its contribution to the overall vision for the Programme but does so by complementing and reinforcing the other Objectives. Moreover, Figure 4 shows how the Objectives have been designed to be mutually reinforcing.

Figure 4: Relationship between the Programme vision and its Objectives



- **Objective 1:** The Objective combines the challenges of addressing low rates of new firm formation, bottlenecks in the development of growing enterprises, and underpinning growth in individual enterprises by promoting an innovation culture and processes in the key sectors of the region. In the more fragile areas of the region, more targeted specific assistance may be required to help enterprise experiencing the challenges of peripherality and distance from services/markets most acutely, linking with Objective 3 below.
- **Objective 2:** Objective 2 recognises that key economic sectors depend on a series of key, region-wide growth drivers to ensure that they are competitive. These can relate to natural heritage, cultural and environmental assets (as is the case for the cultural industries or tourism sector) or to a combination of natural assets and RTD excellence (as in the case of renewable energy). Key economic sectors require a more positive supportive environment to develop and will fit with the other priorities as follows.

First, Objective 2 recognises the important role of the higher and further education capacity of the region as a key growth driver. In effect, the UHI and its network will act as a competitive asset to the whole economy, in terms of research excellence, skills provision and underpinning community regeneration through community learning. Hence, Objective 2 will provide the foundations and know-how to support the synergies between commercial research and the individual enterprises that have the capacity and willingness to take advantage of these resources, which will be the target of Objective 1 support (as shown by **1** in Figure 4).

Second, the Objective will invest in improving the full sustainable economic use of the natural and cultural assets of the region which underpin important sectors such as the cultural industries and tourism. It will not support individual enterprises, as is the case in Priority 1, but projects and initiatives that will benefit the relevant sectors as a whole.

- **Objective 3:** Growth in the economy not only needs a strong and thriving enterprise sector, but in the context of a peripheral region with dispersed settlements, the region's communities need strong growth foundations so that all parts of the region can contribute to achieving the Programme vision. This requires investment in the services and infrastructure sustaining the most fragile areas and improving local accessibility through targeted transport and communications investments. Objective 3 ensures that growth brought about by the first two Objectives is not concentrated exclusively in the growth areas of the regional economy (particularly the Inverness area), but that the benefits are distributed more widely throughout the region. Objective 1 links directly to it through supporting enterprise growth in the region's fragile areas (as shown by **2** in Figure 4). Consequently, this Objective will not fund enterprises directly. Objective 2 links to this Objective 3 through support for the community learning aspirations of the UHI and its network and the scope of the Programme to fulfil them (as shown by **3**).

Each of these Objectives is addressed in the Programme by a single corresponding priority. These are described in the following sections. Each priority section contains: a rationale for and description of eligible activity and indicators and targets.

4.3 Priority 1: Enhancing Business Competitiveness, Commercialisation and Innovation

Rationale and aim

A Smart, Successful Highlands & Islands underlines the productivity challenge facing the region as well as the nation as a whole. The challenge is particularly acute for businesses in the Highlands & Islands where higher input costs can combine with lower volumes of output to keep overall unit costs high. These realities face the small hotel operator just as much as the maker of manufactured goods or the producer of livestock. Thus, raising

productivity in the key economic sectors will require ambitious leadership, supported by continuous investment, allied with investment in skills, harnessing of research, creativity and innovation and greater effectiveness of management in driving improvements forward.

Supporting enterprise in the region is the first key priority for the Highlands & Islands ERDF programme. The priority will achieve the first Objective:

to increase the sustainable growth of the Highlands & Islands economy through expanding the number, diversity and value of output of its enterprises, focusing on key sectors.

Within this priority, there are two strategic elements, deriving from the first Objective:

- to develop the culture and competitiveness of enterprises, especially in the fragile and peripheral parts of the region; and
- to develop businesses of scale and achieve success in key sectors by supporting commercialisation of research and innovation.

Enhancing the Culture and Competitiveness of Enterprises

Increasing enterprise competitiveness has been identified as central to the Programme's strategic objective of creating higher-quality employment opportunities and increased added value in enterprises. (Throughout this priority, where the term enterprise is used, it refers to SMEs, non-SMEs of up to 250 employees per establishment and not-for-distributable-profit organisations, recognising the important local role that small subsidiaries in the region can have to economic development.) SMEs and micro-enterprises represent over 96% of total enterprises, in the key sectors listed in the socio-economic analysis. While that has perhaps been a strategic strength in avoiding over-dependence on large, single employers, there is a great need to expand the range of enterprises and to drive indigenous business growth and realise higher productivity levels.

The region has a strong support network for enterprises already in place. However, there are areas where Structural Funds can add value where local gaps in support provision may be established, especially in peripheral and fragile parts of the region (as defined in the targeting section under Priority 3). This can include:

- local advice/support to support entrepreneurship and new firm formation;
- support for social enterprises in peripheral and fragile communities, as such enterprises can provide key services underpinning the sustainability of such communities;
- promotion of the use of e-commerce technologies; and

- financial support through limited, small-scale, local finance initiatives which will be designed to address the difficulties faced by enterprises in specific parts of the Highlands & Islands, particularly social enterprises in fragile and peripheral communities.

In addition, in line with the recommendations of the Strategic Environmental Assessment set out in the Annex, the Programme should also support projects that contribute to an increased embedding of environmental sustainability within those activities directly contributing to the Lisbon Growth and Jobs Agenda. Encouraging greater resource and energy efficiency will improve the competitiveness of enterprises as well as meet the sustainable development aspiration of the Programme. Consequently, EU funding can provide added value through supporting projects that provide greater application of renewables technologies within business processes and initiatives that will improve the environmental sustainability of enterprises by tackling their resource efficiency.

Developing Businesses of Scale and Investing in Commercialisation in Key Sectors

As already noted, growth in the region will depend on support for enterprises that have high-growth potential – or ‘businesses of scale’. Highlands & Islands Enterprise estimates that there are somewhere between 100 and 200 such businesses in the region. The aspiration is to expand the pool of enterprises, working mainly in those fields which offer significant opportunities for growth, especially the key sectors. This will take the form of targeted support for individual enterprises to make substantial improvements to the bottlenecks to their growth, such as: their productivity; exporting/market growth; organisational capacity; financing strategies; and their innovation capacity and commercialisation. In this context, research and innovation does not simply mean technological RTD, but the development of new services and processes as well as products with a view to improving the overall competitiveness of enterprises.

Another important factor supporting high-growth businesses can be the provision of high-specification business premises, where the development of customised industrial property can make significant improvements to the growth of high-growth potential enterprises. Because of market failure, there is no private-sector provision of such premises outwith the city of Inverness and its immediate hinterland. The priority will aim to provide high-specification premises (ie, those of high design quality, incorporating low environmental and energy impacts and typically targeted at the needs of technology and knowledge-based businesses) rather than more basic factories and offices. Tenants will be predominantly SMEs, though non-SMEs may be housed where the number of their respective employees in the premises does not exceed 250.

The support envisaged in the second theme of the priority is for individual enterprises, but the priority will also support for near-market product development and commercialisation of research for small groups of

enterprises in the region's key sectors. It is distinguished from the support for the underlying research capacity under Priority 2 as the focus will be on supporting the application of new technologies and research to new products, services and business processes to support groups of enterprises in the key sectors. Given the predominance of SMEs, efforts to stimulate current levels of commercialisation will include supporting collaborative networks.

The key sectors have been set out above. Examples of the kind of projects that could be supported in the different sectors include the following:

- renewable energy: supporting knowledge transfer to groups of existing enterprises;
- food and drink: designing new production processes to improve food and drink quality;
- forestry: commercial exploitation of new, higher-quality products that make use of the region's wood resources;
- nuclear decommissioning: supporting trial facilities of new technologies for the benefit of groups of enterprises supplying the decommissioning industry to enable new decontamination and treatment technologies and products to be assessed in special test environments (though not nuclear decommissioning directly); and
- 'life' sciences: again, supporting new technological applications among groups of enterprises within the sector.

The projects under this theme will be delivered by Highlands & Islands Enterprise (HIE) as the Strategic Delivery Body in this priority, as described in more detail in the Implementing Provisions chapter below. HIE will also deliver some of the projects in the previous theme. As the economic development agency for the Highlands & Islands, HIE is the only body that has the remit and resources to support high-growth enterprises and businesses of scale in the region as well as some of the projects envisaged under the first theme of the priority. Other partners will be able to deliver projects under the first theme of the priority.

Structural Funds value added

As Chapter 3 showed, domestic resources to support enterprise development are significantly larger than the ERDF Programme, with major support coming from Highlands & Islands Enterprise and the Local Authorities in particular. Such support addresses the more general business development needs of enterprises across the region in all sectors. Consequently, the Funds will not be used to support such generic business development and advice programmes. Given the limited resources, the Structural Funds will have most value added if targeted on enterprises with significant growth potential, where targeted support by the Funds on their barriers to growth could result in a significant leap in their competitiveness. The Funds will also be directed to any demonstrable, specific local gaps in the provision of key enterprise support, particularly for start-ups and new firms in the peripheral and fragile parts of the region. The research base of the region also relies on

the collective ability of businesses in key economic sectors to develop and finance their own research activities. Priority 1 recognises and supports these initiatives.

The Programme will also aim to encourage value added by encouraging more pilot, innovative approaches to tackling these enterprise development issues. In the 2000-06 period, the EU-funded Innovative Actions Initiative provided funding for cross-Scotland projects that funded pilot projects examining more systemic innovation issues. The Programme will include within its scope explicit support for projects that will address these issues on a cross-Scotland basis through co-ordinated bids with the ERDF Programme for the Competitiveness Objective in the Lowlands & Uplands Scotland area, taking forward pan-Scotland projects that were formerly supported through the Innovative Actions Programme. The Strategic Delivery Body described in the Implementing Provisions chapter will also be encouraged to take forward such ideas.

Eligible activities

€ 47.526 million of EU funding has been allocated to the priority, or 39% of the Programme to support the following eligible activities:

Enhancing the culture and competitiveness of enterprises

- Actions that address gaps in pre- and post-start up provision of business advice for new firms
- Promotional events for would-be entrepreneurs
- Actions to provide access to information, consultancy and hands-on support to social enterprises
- Projects that encourage the take-up of e-business among enterprises, particularly those that deepen the use of e-commerce and aim to produce significant business transformation
- Small-scale financial assistance through grants, micro-credit schemes, guarantee programmes and public/private loan funds to entrepreneurs and new firms
- Development and implementation of environmental and carbon-use/footprint audits by enterprises and introduction of more environmentally-sustainable production systems and business processes

Activities under this theme will be expected to be targeted at the peripheral and fragile parts of the region, as defined using the methodology described under Priority 3. Greater weighting will be given to projects targeting these areas.

Developing businesses of scale and investing in commercialisation in key sectors

- Investments in individual business growth projects, targeted on innovation, productivity improvements and increased output in high-growth potential enterprises (including, where appropriate, some infrastructure support)
- Provision of high-specification, customised business premises, incorporating 'green design' principles wherever possible and involving the conversion/upgrading of existing sites rather than the construction of new ones
- Improving knowledge transfer and business networking in key research centres by supporting networking projects for groups of enterprises
- Creation of research projects that address RTD bottleneck gaps in particular technologies and sectors
- Scoping studies and prototype development for projects with sector-wide benefits, particularly for the growth sectors identified above
- Support for higher/further education and other research spin-outs

To ensure that there is no overlap with the Scottish Rural Development Programme, the development of innovative new products by food and drink and forestry enterprises will be funded through the SRDP rather than the ERDF Programme, although their commercial exploitation can be funded under this priority.

In addition, there is the flexibility facility, which can allow up to 10% of the funding in this priority to be used for related ESF-type expenditure. Where required, the facility will be limited and likely to be only used in supporting small-scale training activities associated with the entrepreneurship, export development and innovation support envisaged in the above list of eligible activities (eg. training new business managers, exporting skills development, training for business research staff). The flexibility would be applied in cases where the supported activity would not warrant a full-scale application to the ESF Programme as the support to be provided would be limited. However, it will be expected that use of the facility will be exceptional and will only represent a small share of any single project's costs. Projects would need to provide clear justification for the need to include ESF-type expenditure.

Indicators and targets

As shown in the table below, the selected indicators reflect the priority's focus on two sub-groups of activities. For projects to support the culture and competitiveness of enterprises, the following output and result indicators have been used:

- in support for entrepreneurs and new firms, the output indicator is the number of individuals and new firms receiving advice or business consultancy and the result indicator is the number of new enterprises that result;
- in support for social enterprises, the output indicator is the number of social enterprises supported and the result indicator is the change in those enterprises' turnover;
- in support for development of e-commerce skills, the output indicator is the number of enterprises supported to develop their e-commerce capacity and the result indicators are the number of e-commerce strategies and plans introduced;
- in support for financial support, the output indicator is the number of enterprises receiving financial support (as well as the number of social enterprises) and the result indicator is the change in those enterprises' turnover as a result of the support; and
- in support for resource and energy efficiency in businesses, the output indicator is the number of enterprises supported in energy and resource efficiency projects and the result indicator is the number of environmental audits and energy/resource efficiency business processes/systems introduced as a result.

The impact indicator is the increase in turnover in the supported enterprises.

For projects to support the development of businesses of scale and investment in commercialisation activities, the following output and result indicators have been used:

- in support for businesses of scale (that is, enterprises typically with over £5 million in annual turnover and at least, 50 employees), the output indicator is the number of enterprises receiving support through the Strategic Delivery Body;
- in support for business sites, the output indicator is the area of business space created/modified;
- in support for commercialisation, the output indicator is the number of commercialisation activities supported and the result indicator is the number of new products and services developed as a result (this includes the number of renewable energy research projects); and
- for all projects, the result indicator is the increase in turnover in enterprises supported through the Strategic Delivery Body.

For the priority as a whole, there are two indicators to be assessed:

- number of gross jobs created; and
- the number of net new jobs created.

Targets have been set with reference to previous programme experience. The data for the majority of these indicators will be collected from individual participant data on a quarterly basis, as described in more detail in Chapter 9.

However, there are a number of indicators which will need to be measured through specially-commissioned data-gathering exercises because of the longer-term nature of the results/impacts (eg. GVA), or the speculative nature of the activity supported (eg. number of renewable energy research projects). Indicators measuring changes in turnover, the gross value added in supported enterprises and the number of net new jobs created will be assessed through specifically-commissioned evaluations to be conducted in the latter half of the programming period – this will allow for a suitable period of time for the results of actions to become manifest.

Indicator	Type	Target
<i><u>Enhancing the culture and competitiveness of enterprises</u></i>		
Number of individuals and new enterprises receiving advice/consultancy	Output	400
Number of enterprises receiving financial support	Output	50
Number of enterprises receiving support for e-commerce	Output	150
Number of enterprises receiving support for energy-saving and resource-efficiency	Output	350
Number of social enterprises receiving support	Output	200
Number of new business starts resulting from support	Result	150
Number of e-commerce strategies developed	Result	100
Number of enterprises implementing environmental audits and energy-saving/resource-efficiency systems	Result	250
Increase in turnover in enterprises receiving support	Impact	
<i><u>Developing business of scale and investing in commercialisation of key sectors</u></i>		
Number of enterprises receiving support through the Strategic Delivery Body	Output	20
Area of business space created or modified (m ²)	Output	10,000
Number of commercialisation activities	Output	15
Increase in turnover in enterprises supported by Strategic Delivery Body (£mn)	Result	40
Number of new products and services developed	Result	10
Number of renewable energy research projects supported	Result	
<i><u>Priority as a whole</u></i>		
Number of gross jobs created	Result	2,200
Number of net new jobs created	Impact	
Increase in gross value added in supported enterprises	Impact	

In addition, the Managing Authority will report on the size of enterprises receiving support in line with Article 66 of the General Regulation. This will

include a breakdown by micro, small and medium-sized enterprises, which will be defined as part of guidance to be made available in advance of each programming round. Targets will not be set for these indicators.

Guidance on definitions of indicators will be provided by the Managing Authority to all potential applicants in advance of programming rounds.

Baselines to measure the priority's impact are set in Chapter 9, which also discusses in more detail how the data will be used for evaluation and reporting purposes. With respect to the individual indicators listed for this priority, the relevant baselines are as follows:

- number of enterprises in the region – 18,000 in 2002 (NOMIS);
- number of new enterprises in the region each year – 1,280 in 2004 (NOMIS); and
- employment for the region – 269,000 economically-active 15-64 year olds in 2005 (Eurostat).

4.4 Priority 2: Enhancing Key Drivers of Sustainable Growth

Rationale and aim

While the competitiveness of the overall economy requires tackling problems facing enterprises across the region, and particularly in peripheral and fragile areas, targeted action to support the key drivers of sustainable growth will have a major impact in assisting the region and allowing the region to contribute towards Lisbon goals. Such drivers underlie not just the competitive advantage of the region's key sectors, but region-wide sources of competitiveness identified in the socio-economic analysis, notably the research and skills capacity of the region as a whole and the region's extensive natural, historical and cultural assets.

To achieve this, the priority will address the second Objective:

to enhance the sustainable value of the key drivers of the regional economy, specifically the UHI, the wider research capacity of the region and the use of the region's natural, historical and cultural assets.

It will do this by focusing three sets of key drivers:

- the core research and training capacity of the region, consisting of the UHI and its network working towards the goal of university status;
- the capacity of the wider research infrastructure of the region to improve research and innovation in the region; and
- the sustainable economic use of the natural and cultural assets of the region.

The UHI

As part of this priority, investing in the UHI and its network will be critical. Support for the UHI has marked previous Structural Funds programmes, but with full university status due in the Programme's lifetime, investment needs to shift from the foundation support for basic higher and further education infrastructure towards investments in its ability to support the region's enterprise sector, as these will be required in securing full university status for the institution. At the same time, it is important that the investments in the UHI and its network benefit the wider region through supporting investments to increase access to its research and learning resources across the region as a whole. Transforming the UHI and its network into a major research and training resource for the region's key sectors will be one of the key legacies of this Programme.

Developing the capacity of the region's teaching and research underpins not just the ERDF Programme for the region, but the ESF Programme as well. Developing a strong university and college cluster of learning that can support not just skills development in the area but the research excellences that will reinforce the competitiveness of key Highlands & Islands industries will be a critical legacy of the Programme (such as life and environmental sciences and nuclear decommissioning).

Support will be available for key investments in improving the research and learning capacity of the UHI and its network, including the ICT/communications links that facilitate remote learning and research centres (especially for the more peripheral and fragile areas of the region and non-traditional groups of learners). Wider access will also be attained through the development and application of new and emerging e-learning technology. Investments under this priority will be strongly co-ordinated with support under Priority 3 in the ESF Programme for the region (access to lifelong learning).

Given the specific goal of this part of the priority to support the UHI's bid for full university status, the University of the Highlands & Islands Millennium Institute as a Strategic Delivery Body will be commissioned to deliver this strand of activity. It is the only body that can deliver the key projects required to secure university designation. Funding through this arrangement will be used in conjunction with funding to the UHI under Priority 3 of the ESF Programme. The details of this delivery arrangement are described in the Implementing Provisions chapter below.

Wider Research Capacity of the Region

At the same time, it is important to recognise the role of other research centres in the Highlands & Islands – although lying outside the UHI and its network, they can have a valuable role in underpinning competitiveness in particular sectors (such as the role of the European Marine Energy Centre in Orkney and the Sustainable Research Development Centre in Forres for the

renewable energy sector). Investments in these centres would not contribute to the goal of securing a full university for the region, but it would provide important support to particular sectors in the economy.

Funding would be available for: improvements and upgrades to existing research facilities and infrastructure, especially those supporting competitiveness in the region's key and growth sectors; assistance in applications from the region for securing 7th Framework Programme funding, especially by disseminating research outcomes from FP7 research for adoption by business, and support for specific research projects aiming to develop key technologies by research centres and higher and further education bodies operating in the region.

Increasing the Sustainable Use of Natural, Historical and Cultural Assets

The second key regional driver is the region's natural environment and its historical and cultural heritage, encompassing the region's wilderness areas and landscape, the historic traditions of the region embodied in its tourism sites as well as the cultural legacy of the region, such as its distinctive languages and music. Recognising the value and potential of these region-wide assets to the Highlands & Islands economy, large-scale infrastructure investments will not be possible – support would be made instead for making fuller commercial use of existing sites and assets.

Projects will fall into three distinct but related groups – cultural heritage and assets; natural heritage; and 'physical' heritage. Support will be available to exploit the competitive advantage of the distinctive cultural heritage and resources of the region to attract visitors and to enhance its indigenous cultural industries (such as Gaidhlig and the region's musical heritage in support of broadcasting and other media industries). The natural assets and environmental quality of the region can support development of new products and services such as green, eco and wildlife/wilderness tourism and food and drink-based tourism (eg. local produce, whisky trails). The development of Lochaber as the Outdoor Capital of the UK has provided opportunities for major events, such as the UCI Mountain Bike World Championships. Finally, historic sites and tracing ancestry also offer opportunities to bring people to the area. Summer schools in Archaeology at Orkney College and Summer Lectures on Highland History by North Highland College provide further examples of educational tourism opportunities, delivering extra tourism numbers as well as supporting sustainability at the local college.

The region has benefited from a vast number of tourism and cultural initiatives through the Scottish Year of Highland Culture 2007 and it is envisaged that further opportunities will be presented through Scotland's Year of Homecoming in 2009, another national celebration aimed at attracting hundreds of thousands of extra visitors, particularly those with direct Scottish ancestry and links, by showcasing Scotland as an ideal location to visit. These and other ventures will allow enterprises across the region to utilise the natural and cultural assets of the region in a sustainable way, through 'green', wildlife and wilderness tourism, tapping into the 50

million Scottish diaspora market both within the UK and overseas, as well as those who just want to experience the scenery. This could take the form of sector-wide marketing campaigns, and projects that support greater integration of the different sites/attractions of the region into integrated products/services to visitors. The aim will not be just to increase employment, but sustainable, higher-quality employment and promote continuing productivity improvements throughout related sectors.

Structural Funds value added

The real added value of the Programme is in concentrating on key growth drivers that can prove to be of benefit to the region as a whole and to key sectors in particular. Projects to be developed under this priority can cover research and technology development or other ways of improving the competitiveness of sectors (such as the development of new products and services). By acting as an incentive to sector-wide projects, it will help to focus the attention of enterprises on the factors that make their sector competitive and encourage them to take full advantage of those factors.

Value added is particularly important with respect to the UHI and its network. The Programme cannot provide full-scale support for UHI aspirations, but it can act as a major catalyst for the development of the institution's research excellence and the links between this RTD expertise and the wider business community and its overall goal of securing full university status. The UHI could also have a major role in supporting community sustainability across the region by addressing gaps in the local learning capacity through e-learning facilities. On a smaller scale, the Programme can also support the wider research capacity of the region through targeted funding of research in the region.

Targeted investments in the use of natural, historical and cultural assets will be linked to sector-wide initiatives to improve the competitiveness of the region's cultural industries as well as the products and services of the tourism sector, particularly where related to improving the use of the region's natural/cultural assets. It will aim to improve the gross value added associated with such industries, which – as in the case of tourism – have been sometimes associated with low wages and productivity.

Eligible activities

€ 41.433 million of EU funding has been allocated to the priority, or 34% of the Programme to support the following eligible activities:

The UHI

- Development of the UHI and its network through investment in improving research facilities and infrastructure linking to the key sectors listed above (and other emerging growth areas identified over the lifetime of the Programme)

- In-house research and technological development capacity within the UHI and its network, linked to specific research projects and the development of key technologies with a direct potential for use and commercialisation by existing or new SMEs located in the region
- E-learning infrastructure for the UHI and its network, particularly when linked to enhancing skills and training provision to remote communities in the region (though not the local facilities themselves, which will be supported under Priority 3)
- Training facilities for the UHI and its network, particularly linked to supporting skills development in enterprises

Wider research capacity of the region

- Investment to upgrade research facilities and infrastructure, especially those supporting competitiveness in the region's key and growth sectors
- Support for specific research projects leading to the development of key technologies by research centres and higher and further education bodies operating in the region with a direct potential for use and commercialisation by existing or new SMEs located in the region

Increasing the sustainable use of natural, historical and cultural assets

- Projects to develop new products, services and processes of benefit to groups of enterprises and sectors based on the region's natural resources, particularly for the tourism sector
- Projects that enable the region's cultural/linguistic/historical heritage to be developed and marketed in support of the region's cultural industries and tourism
- Activities that seek to bring together individual tourism attractions/sites into more integrated products/services
- Projects that enhance the visitor experience such as interpretative facilities (where infrastructure expenditure is involved, it is envisaged that this would be small-scale and involve the extension/adaptation of existing facilities)

In addition, there is the flexibility facility, which can allow up to 10% of the funding in this priority to be used for related ESF-type expenditure. Where required, the facility will be limited and likely to be only used in supporting limited training activities associated with the development of new research and learning facilities, research and technology development in key sectors (such as the training of key research staff) and in support of projects developing the region's natural, historical and cultural environment (such as the development of specific sectoral skills). The flexibility would be applied in cases where the supported activity would not warrant a full-scale application to the ESF Programme as the support to be provided would be limited. However, it will be expected that use of the facility will be exceptional and will only represent a small share of any single project's costs. Projects would need to provide clear justification for the need to include ESF-type expenditure.

Indicators and targets

As shown in the table below, the selected indicators reflect the priority's focus on several sub-groups of activities. For projects to support the UHI and the capacity of the region, the following output and result indicators have been used:

- for output indicators, the number of research facilities (eg. laboratories and research centres) and e-learning and training facilities supported, as well as the number of RTD projects supported (and as an indicator of the environmental sustainability cross-cutting theme, the number of renewable energy research projects); and
- for result indicators, the number of patents filed and the number of fragile/peripheral communities linked to the UHI network through e-learning/training facilities.

The impact indicator would be improvements in RTD expenditure by enterprises directly benefiting from the project (eg. enterprises involved in research with the UHI) – impacts under this indicator would be clearly distinguished from any impacts through funding under Priority 1.

For projects to support the sustainable use of natural, historical and cultural assets, the following outputs and result indicators have been used:

- for output indicators, the number of projects to develop new products and services based on the sustainable use of natural, historical and cultural assets; and
- for result indicators, the number of new products and services resulting from these projects.

The impact indicator would be improvements in gross value added by enterprises directly benefiting from the projects (eg. businesses making use of the new products and services).

For the priority as a whole, there are three indicators to be assessed:

- number of gross jobs created;
- the number of net new jobs created; and
- increase in RTD expenditure by supported enterprises.

Targets have been set with reference to previous programme experience. The data for the majority of these indicators will be collected from individual participant data on a quarterly basis, as described in more detail in Chapter 9. However, the number of net new jobs and the increase in RTD expenditure and turnover in enterprises benefiting from the supported activity will be assessed through a specifically-commissioned evaluation to be conducted in the latter half of the programming period – this will allow for a suitable period of time for the results of actions to become manifest.

Guidance on definitions of indicators will be provided by the Managing Authority to all potential applicants in advance of programming rounds. In particular, these will define the type of projects set out in the output indicators.

Baselines for measuring progress in achieving 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
<u><i>The UHI and the wider research capacity of the region</i></u>		
Number of research facilities supported	Output	30
Number of e-learning/training facilities supported	Output	60
Number of RTD projects supported	Output	30
Number of renewable energy research projects supported	Output	10
Number of patents filed	Result	20
Number of vocational training infrastructure projects supported	Result	10
Increase in RTD expenditure in businesses benefiting from supported activity	Impact	
<u><i>Increasing the sustainable use of natural, historical and cultural assets</i></u>		
Number of projects on the sustainable use of natural and cultural assets to develop new products and services	Output	70
Number of new products and services based on natural and cultural assets developed	Result	50
Increase in gross value added in businesses benefiting from supported activity	Impact	
<u><i>Priority as a whole</i></u>		
Number of gross jobs created	Result	1,300
Number of net new jobs created	Impact	

4.5 Priority 3: Enhancing Sustainable Growth of Peripheral and Fragile Communities

Rationale and aim

The social and economic sustainability of peripheral and fragile areas is a critical component of regional competitiveness. This link was recognised in the Lisbon Council in 2000, which acknowledged the scale of poverty and social exclusion in certain areas as a major constraint on the EU achieving its competitiveness aims. Failure to tackle the problems associated with geographical pockets of intense exclusion is not only contrary to a shared EU 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. While this tends to manifest itself particularly in urban areas, the rural dimension

presents particular challenges. The main contributory factors here include sparse and widely-dispersed population, insular and island communities, (lack of) access to services, jobs and training and isolation. As Chapter 3 sets out, this principle underlies the recent policy statement on regeneration, People and Place, as well as A Smart Successful Highlands & Islands.

As a result, the priority will implement the third Objective of the Programme:

to support sustainable growth in fragile and peripheral communities of the region in order to contribute to Lisbon goals

The sustainability of fragile areas is particularly important in the Highlands & Islands, where many communities are threatened by peripherality, limited access to services, out-migration and a weakened enterprise foundation. In combination, the problems will hinder the capacity of the region to contribute fully to the achievement of Lisbon goals. The need for geographically-targeted funding at communities or groups of communities where these issues are most acute will influence the delivery of this priority.

In the past, transport and telecommunications access has been supported through significant infrastructure investments, which have made a great difference to the economic performance of parts of the region, through key projects such as the Scalpay Bridge, the Berneray Causeway, new terminals at Inverness, Kirkwall and Stornoway Airports, and improved port infrastructure and telecommunications links. The unique physical characteristics of the region, typified by scattered islands and remote and peninsular communities, continue to present a compelling case for continuing infrastructure investment. However, the level of need and the limited resources available dictate that major investments must be pursued through 'mainstream' channels. Consequently, the 2007-13 Programme needs to target key small-scale infrastructure investments where specific issues of local accessibility are critical. This could involve transport and telecoms access issues, but will be small-scale in nature and linked to local development plans.

While gaps remain in the upgrading of the transport network, provision should largely fall to the statutory agencies, leaving ERDF to concentrate on strategic local projects that complement other investments and improve 'connectivity'. Public transport provision is in the process of being reorganised, with the development of a strategic regional dimension to public transport provision in the Highlands & Islands. While the revenue support of individual services will remain the responsibility of local authorities and the Scottish Government, ERDF can assist with some small-scale strategic investments to improve existing facilities, encourage greater use of public transport and facilitate access to jobs and markets.

As the socio-economic analysis highlighted, problems currently faced include:

- infrequent and expensive sea and air transportation;
- poor inter-modal linkages;
- poor quality road networks; and
- poor public transport provision in remote areas.

With respect to telecoms, historical investments in extending the ICT and broadband infrastructure in the region has created opportunities for new and innovative services and applications in the Highlands & Islands. The delivery of services to remote areas via electronic points will encourage the sustainability of very remote areas, removing barriers to access and reducing the need to travel long distances. Positive use of the Information Society is highly important to the economic development of remote rural and island areas such as the Highlands & Islands. The availability of a comprehensive broadband telecommunications infrastructure provides a foundation for combating the problems caused by peripherality for many enterprises, learning institutions and community groups in the region.

While this will enable equality of access to all business, education and training purposes and improve the overall economic performance of the area, it is essential to 'keep pace' with developments and maintain competitiveness. These investments have allowed the remoter areas of the Highlands & Islands to take advantage of greater global economic opportunities, but parity in ICT provision does not fully exist (as seen in the socio-economic analysis). In particular, speed and capacity vary substantially. This can be tackled and the Programme by providing limited enhancements to ICT infrastructure of local communities where normal commercial interventions would not take place and to upgrade and extend across points in more peripheral areas. To avoid any potential overlap with Priority 2, where the communications infrastructure is linked to higher and further education links and provision, this would be activity eligible under Priority 2 and not this priority.

As the Highlands & Islands is characterised by fragile and remote communities and local economies, the priority will also complement Priority 1's support for individual enterprises by increasing provision of core facilities and services that contribute to local economic growth and maximise the benefits of existing services and infrastructure. The provision of local community resource support is crucial to strengthen and develop communities by addressing social exclusion and providing more of the critical mass needed to reverse out-migration. For such fragile areas, economic and social development should be pursued in tandem, as both contribute equally to making communities sustainable by reversing out-migration. With an emphasis on sustainable community economic development, the Programme will build on best practice from the previous programmes. Communities need to harness the resources they have at their disposal to enable them to prosper and overcome the barriers they have experienced to date.

The facilities needed in remote, fragile areas are both enterprise-related and community-based in nature, but all can contribute to creating the conditions

for more sustainable local economic growth. Enterprise-related facilities include e-commerce facilities and business development units to support local enterprises. Community facilities include local training and e-skill centres and childcare/dependent care facilities linked to training and employment initiatives. In addition, in keeping with the sustainable development vision of the Programme, support will be available for small-scale renewable energy projects for local communities, although this will need to be clearly distinguished from any support for similar projects through the Scottish Rural Development Programme (as discussed in Chapter 6).

Structural Funds value added

Limited funding means that funding needs to be weighted towards the most 'fragile' areas. Chapter 3 showed the priority placed on transport and telecommunications developments to support the links between these areas and other part of the region, but this leaves significant scope for small-scale investments to support individual communities. Added value for these communities will come through the Funds encouragement of special, integrated packages of development, recognising that a holistic, co-ordinated approach to policy intervention is more likely to have a longer-lasting impact. This 'package' approach is discussed below. With respect to access issues, the Funds can have the most value added in addressing the accessibility of fragile areas through targeted, local and small-scale investments in transport and telecoms infrastructure that are acting as significant breaks on the longer-term economic and social sustainability in these communities.

Targeting

Funding in this priority will be weighted towards projects from 'fragile' areas within the region. Fragile areas are economically and socially disadvantaged parts of the area with long term structural problems of economic decline located particularly in the more remote and rural parts of the area which require continued support to allow them to realise their full potential. Development problems include structural weaknesses in the local economy and declining population in many areas which warrant additional community and social support.

In particular, the more fragile areas of the Highlands & Islands are characterised by a combination of features, including long-term population loss, low incomes, limited employment opportunities, dependency on a narrow and often seasonal range of economic activities, poor infrastructure, poor transport, access and adverse geography. These characteristics apply equally in island and remote mainland communities.

Under the HIE definition, approximately 18% of the population in the wider Highlands & Islands are resident in fragile areas. This is geographically spread across all island groupings as well as in Caithness & Sutherland, Wester Ross, mainland Argyll and Lochaber on the mainland

They are classified on the basis of twelve criteria which can be broken into three main types: geographic, demographic and economic. The following criteria make up the definition. Areas need to satisfy at least one of the three sets of criteria to be designated as fragile.

- Geographic
 - islands which lie off other islands and are not linked by a causeway
 - a distance of more than 50 miles (80 kilometres) from a population centre of 5,000
 - over 70% of roads are single track
- Demographic
 - islands with populations of less than 2,500
 - population density less than the area average of 9 persons per square kilometre
 - more than 20% of the population is of pensionable age
 - population loss between the last two censuses
 - in-migration of economically active below the area average
- Economic
 - economic activity rates below the area average
 - high average and/or seasonal unemployment
 - long-term unemployment more than 25% above the area average
 - high dependency on primary sector employment

Lists of areas qualifying under this approach will be provided to applicants in advance of each programming round.

While individual projects will be eligible for support through the priority, special emphasis will be placed on encouraging projects that are part of integrated packages of support put forward by partnerships, particularly Community Planning Partnerships. This may include a range of smaller projects, linked together into a common aim of improving the sustainability of particular communities. 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.

Eligible activities

€29.247 million of EU funding has been allocated to the priority, or 24% of the Programme to support the following eligible activities:

- Conversion and adaptation to enterprise/community centres/facilities that offer employment or training opportunities to local inhabitants, especially those employing 'green design' principles
- Refurbishment of existing business development facilities to make them suitable for new or established businesses, including the development of local incubator and business support centres, especially those employing 'green design' principles

- Development of e-skills/learning/commerce facilities
- Development of childcare/dependent care facilities
- Support for medium-sized energy production and distribution from renewable energy technologies in response to community energy needs (small-scale facilities – typically for farms and individual enterprises – will be funded through the Scottish Rural Development Programme)
- Small-scale strategic transport links in improving access and reducing peripherality, especially linked to road and ferry services, incorporating 'green design' principles wherever possible
- Small-scale projects involving connections between smaller islands and (island) mainlands that will significantly enhance community access, incorporating 'green design' principles wherever possible
- Investments in ICT infrastructure to enable fragile areas to take better advantage of the region's broadband infrastructure (unless it relates principally to higher and further education links, in which case, the activity should be pursued under Priority 2)

In addition, there is the flexibility facility, which can allow up to 10% of the funding in this priority to be used for related ESF-type expenditure. Where required, the facility will be limited and likely to be only used to assist projects with limited training activity required in providing support/advice to enterprises in these communities (eg. in e-commerce and e-skill centres). The flexibility would be applied in cases where the supported activity would not warrant a full-scale application to the ESF Programme as the support to be provided would be limited. However, it will be expected that use of the facility will be exceptional and will only represent a small share of any single project's costs. Projects would need to provide clear justification for the need to include ESF-type expenditure.

Indicators and targets

As shown in the table below, the selected indicators reflect the priority's focus on improving the sustainability of fragile and peripheral communities in the region. The output indicators reflect the range of projects to be supported:

- the number of community facilities supported, including e-learning and childcare facilities;
- the area of business space modified/created for enterprises in fragile and peripheral areas;
- the number of transport projects supported; and
- the number of renewable energy projects supported (as an indicator for the Programme's cross-cutting theme of environmental sustainability).

Indicator	Type	Target
Number of e-learning/childcare and other community facilities supported	Output	40
Area of business space created or modified (m ²)	Output	2,100
Number of transport projects supported	Output	15
Number of ICT infrastructure projects supported	Output	15
Number of renewable energy projects supported	Output	10
Number of gross jobs created	Result	1,200
Increase in share of energy from renewable resources in supported areas	Result	
Time saved per journey (journey time x freight/passenger volume)	Result	
Increase in broadband usage in supported areas	Result	
Number of net jobs created	Impact	

Overall, for the priority as a whole, there are two indicators to be assessed:

- number of gross jobs created; and
- the number of net new jobs created.

Targets have been set with reference to previous programme experience. The data for the majority of these indicators will be collected from individual participant data on a quarterly basis, as described in more detail in Chapter 9. However, there are a number of other result indicators which will be measured through a specially-commissioned data-gathering exercises because of the longer-term nature of the results/impacts (eg. net jobs created), or their experimental nature (eg. increase in broadband usage and share of energy from renewable resources and time savings). These include: increase in the share of local energy needs met by local renewable energy sources; changes to the travel times resulting from access projects; and increase in broadband usage. These, as well as the number of net new jobs created, will be assessed through a specifically-commissioned evaluation to be conducted in the latter half of the programming period – this will allow for a suitable period of time for the results of actions to become manifest.

Guidance on definitions of indicators will be provided by the Managing Authority to all potential applicants in advance of programming rounds. In particular, these will define the type of projects set out in the output indicators.

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

4.6 Technical Assistance

Technical assistance support will be provided to assist the management and administration of the programme. This will include projects 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.

Eligible activity

€3.656 million of EU funding has been allocated to the priority, or 3% of the Programme to support the following eligible activities:

- 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
- 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
- Provision of advice to applicants
- Development of integrated information technology systems to support the Programme
- Publicity and awareness-raising of the Programme among all beneficiaries and applicants in line with the activities set out in the information and publicity section in Chapter 7
- Annual reporting on 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 Convergence Objective must meet a target of 60% 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.

Although this target will be met, the ERDF Programme for the Highlands & Islands has set itself an ambition of achieving 75% of expenditure. A table with a breakdown by category of the programmed use of the Funds is attached in the Annex, though this will be indicative only and does not contain any targets for specific categories of expenditure.

5 FINANCIAL ALLOCATIONS

The financial allocations for each year of the programme are shown in the table below. €121.862 million of Community funding will contribute to a Programme of €291.319 million in total, resulting in a target Programme intervention rate of 42% (as calculated on the basis of total public expenditure).

Table 18: 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	29,896,923	41,573,332	71,470,255	42%
2008	26,021,250	36,183,993	62,205,243	42%
2009	21,978,593	30,562,454	52,541,047	42%
2010	17,763,820	24,701,579	42,465,399	42%
2011	13,371,664	18,594,042	31,965,706	42%
2012	8,796,718	12,232,325	21,029,043	42%
2013	4,033,424	5,608,700	9,642,124	42%
2007-13 total	121,862,392	169,456,425	291,318,817	42%

For the three key priorities of the Programme, resources have been relatively evenly distributed, as shown in Table 19. The rationale for the allocation between these priorities reflects several factors.

- Priority 1 has received the joint highest level of support, reflecting the importance of enterprise development in the region, the need to support entrepreneurship and the effort to raise innovation levels.
- Priority 2 has the same level of support as Priority 1, indicating the scale of funding needed to address the sectoral challenges identified above and in ensuring that the development of higher and further education is one of the legacies of the Programme as well as investments to support industries based on the region's natural and cultural assets. The higher level of infrastructure investment in this priority – particularly for the higher and further education sector element – has resulted in a slightly higher co-financing rate than for the other two priorities.
- Priority 3 does not receive as much funding as the other two priorities, reflecting, in part, the greater Lisbon focus of Priorities 1 and 2.

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

Table 19: Priorities by source of funding (in €)

Year	Community Funding (a)	National Public Funding (b)	Total Funding (c) = (a)+(b)	Co-financing Rate (e) = (a)/(c)	EIB Contributions	Other Funding
Priority Axis 1	47,526,332	71,289,496	118,815,828	40%	0	0
Priority Axis 2	41,433,214	50,640,596	92,073,810	45%	0	0
Priority Axis 3	29,246,973	43,870,460	73,177,433	40%	0	0
Priority Axis 4	3,655,873	3,655,873	7,311,746	50%	0	0
Total	121,862,392	169,456,425	291,318,817	42%	0	0

6. CO-ORDINATION WITH OTHER FUNDS

Co-ordination of the Structural Funds with other relevant funding streams is not just a regulatory requirement, but given greater importance in the 2007-13 programming period because the scale of funding in the Highlands & Islands is so reduced, making it more critical that Structural Funds work closely with other sources of funding. Similarly, the scope of eligibility in the 2007-13 programming round is more limited than in previous rounds, giving greater opportunities for Structural Funds to work in combination with other, similarly focused policies.

In this context, there are several relevant funding streams. Chapter 3 discussed the match between Structural Funds and the aims of domestic funding streams. This chapter discusses how the ERDF Programme will work closely with other EU funding, specifically:

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

6.1 European Social Fund

As the other major funding stream within EU cohesion policy, it is essential that ERDF works closely with the European Social Fund (ESF), while recognising their distinctive objectives. In parallel with this ERDF programme, there will be an ESF programme for the Convergence Objective of the Structural Funds, covering the same eligible area. This is an important change from the 2000-06 programming period, where the Programme for the Highlands & Islands covered all four funds.

The experience of the 2000-06 programming period in co-ordinating ERDF and ESF 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, ERDF and ESF 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 co-ordination takes places systematically and that it is monitored and assessed on a regular basis.

The main co-ordination mechanism will be through the proposed single Programme Monitoring Committee overseeing the ERDF and the ESF programmes for the Highlands & Islands. Annual reporting on how ERDF and ESF is being used jointly – taking the form of papers to be discussed at PMC

meetings – will be the basis for a review of the procedures for ensuring funding co-ordination and the targeting of funding on eligible activities.

As part of this annual reporting, the use of the funding flexibility allowed in the 2007-13 programming period will also be reviewed. Under the Article, up to 10% of total ERDF programme resources can be spent on ESF-related expenditure. This can enable project sponsors to avoid unnecessary applications on projects where they are likely to be a small proportion of total project funding. It is anticipated that this flexibility will not be used extensively, but only to support limited project activity (as set out in the priority descriptions in Chapter 4). The use of the facility will be exceptional and will only represent a small share of any single project's costs. Projects would need to provide clear justification for the need to include ESF-type expenditure. 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 'ESF' activities and provide the information as part of the annual report on ERDF-ESF co-ordination to the PMC.

As set out in section 4.5 above, one of the ERDF Programme priorities will be delivered jointly with one of the priorities in the ESF programme for the Highlands & Islands. Joint awards of funding under Priority 1 of the ESF Programme and Priority 3 of the ERDF programme will be made to projects making linked separate applications under each priority. 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. Partners will be encouraged to develop proposals that show how ERDF and ESF funding can be used in tandem, though it will not be a requirement to apply for both sources of funding. While applications need to be made separately to each Programme, appraisal and project selection between both programmes will be co-ordinated through joint 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.

In addition to this co-ordinated activity, Priority 1 of the ERDF Programme has been designed to complement Priority 2 of the ESF programme. As Priority 1 targets the development needs of businesses, new enterprises and entrepreneurs, Priority 2 of the ESF programme – which focuses on improving the skills levels of those in work – explicitly concentrates funding on the skills needs of business managers and those wanting to set up, or who have just set up, new enterprises. Less formally than with respect to Priority 3 ERDF and Priority 1 ESF, where complementary projects exist, co-ordinated joint applications will be invited to ensure that EU funding for projects is as integrated and strategic as possible. Such applications need to be explicit in setting out ERDF-specific outcomes and activities to ensure a clear distinction of the Funds. Applications will be considered through joint

operation of the advisory groups in the Implementing Provisions chapter below.

Lastly, the investments in further and higher education infrastructure envisaged under Priority 2 of the ERDF Programme will directly complement the support for lifelong learning under Priority 3 of the ESF programme, particularly in the case of funding packages provided to the UHI as one of the Strategic Delivery Bodies. This is discussed in more detail in the Implementing Provisions chapter below.

Again, as set out above, 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.

6.2 Territorial Co-operation Objective

There are a number of programmes in the different strands of the Territorial Co-operation Objective which cover part or all of the Highlands & Islands area. Projects supported under these Co-operation programmes will be co-ordinated, where appropriate, with the ERDF programme.

In the transnational co-operation strand, the relevant programmes are the following. The Northern Periphery programme (NPP) covers all of the Highlands & Islands. The programme's partners include Finland, Ireland and Sweden within the EU and Norway, Iceland, Faroes and Greenland outwith the EU. Although the priorities for the transnational programme were not finalised at the time that the ERDF Operational Programme was finalised, it is likely that the key thematic priorities of the NPP would mesh with the eligible activities set out under Priority 3 in the Programme, with its focus on community sustainability. The shared practice and joint development projects taken forward under the NPP could link to the projects put forward under Priority 3.

Similarly, all or parts of the area are eligible under the North Sea, North West Europe and Atlantic Coast programmes. As with the NPP, priorities in these programmes relate to all three ERDF priorities.

To ensure full complementarity, the following will take place:

- projects bidding for Priority 3 funding will be required to demonstrate knowledge and fit with any relevant funded projects under the Co-operation Objective programmes in their applications; and

- on an annual basis, the Programme Monitoring Committee will receive a report by the Managing Authority that will summarise projects being supported under the Co-operation Objective programmes in order to refine the demarcation of eligible activities in the priorities and better inform its recommendations on projects to be supported.

Further, as Managing Authority, the Scottish Government will identify opportunities for projects that have received funding from one programme to have a later stage of their development funded under another programme, if appropriate – for example, a project developing innovation through Priority 1 of the ERDF Programme could benefit in a successive development phase through best-practice/benchmarking work with international partners through one of the transnational programmes – or, *vice versa*, where co-operation projects suggest a way forward, solutions might be mainstreamed into the Highlands & Islands programme.

The transnational programmes are to a large extent continuations of programmes from the 2000-06 period and will build on their experience. Under the cross-border co-operation strand, the Highlands & Islands area will be eligible for support from a programme with partners in Northern Ireland and Ireland. Its key themes are likely to fit with Priorities 1 and 3 of the ERDF programme. The actions set out above will apply here as well.

There is an option for inter-regional co-operation to be pursued as a strand of the ERDF programme. Given the limited funding and the greater effectiveness of keeping co-operation projects under a single banner, the option is not currently envisaged for the Highlands & Islands area in the 2007-13 programming period.

Lastly, strong consideration will be given to the Regions for Economic Change initiative as well. This instrument is aligned to the Lisbon and Gothenburg agendas with the objective of stimulating economic modernisation and strengthening the competitiveness of Europe through exchange of experience and good practice between European regions and cities. This initiative would be implemented through cross-country partnerships.

6.3 The European Agricultural Fund for Rural Development

Both the General and the ERDF Regulations specify that the Operational Programmes must set out how ERDF and the European Agricultural Fund for Rural Development (EAFRD) will complement each other. EAFRD in Scotland is governed by the Scottish Rural Development Programme, which covers the whole of Scotland. The Managing Authority for the Fund is the Scottish Government through the Rural Directorate.

The ERDF Programme and the Scotland Rural Development Programme (SRDP) have been developed in parallel by the Scottish Government 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 in Priorities 1 and 2 of the ERDF programme, particularly with the support for key sectors in a largely rural economy, and Axis 3 of the SRDP and LEADER projects. Both programmes have some common areas of scope, as set out by their respective regulations in supporting business viability, more sustainable economic use of natural assets and addressing the community dimension to economic development. To ensure that there is no overlap in eligibility, and that there is full complementarity in the projects supported, demarcation will take place in three ways

- Stage of development. The lists of eligible activities of the programmes 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. For example, the SRDP would support the development of products based on biodiversity, but larger scale commercial exploitation of those products would be funded through ERDF (particularly in Priority 1).
- Type of activity. Demarcation will also take place in terms of eligible activities (eg. the SRDP will concentrate on agricultural and forestry sectors, while ERDF will support enterprises based on other sectors). For tourism, SRDP will provide small-scale support for improving visitor attractions, while the ERDF will concentrate on improving the competitiveness of tourism businesses, especially through Priority 2.
- Size of project. SRDP will focus on support for micro enterprises, while ERDF funding will tend to target larger SMEs. For renewable energy projects, smaller-scale, often farm-based facilities are envisaged in SRDP, while ERDF in Priority 3 will concentrate on medium-sized projects providing generation and distribution for communities (to be defined in guidance to applicants in advance of each programming round) With respect to LEADER, demarcation under Priority 3 of the ERDF Programme, where some overlap may be possible, will be required of applicants prominent in the delivery of both activities, notably the Community Planning Partnerships.

The table below sets out the eligible activity areas where demarcation is necessary.

At the same time, at local level, relevant projects will be expected to take explicit account of the priorities set by the local Rural Development Fora for Axis 3 of the Scottish Rural Development Programme at the time of application. Both Programmes will include representatives in attendance of the different monitoring committees.

Complementarity will 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. The PMC would then be able to refine eligibility criteria and project recommendations to take account of supported projects through the SRDP.

Table 20: Demarcation of EAFRD and ERDF activity

Type of activity	EAFRD eligible activities	ERDF eligible activities
<u>Transport infrastructure</u>	<ul style="list-style-type: none"> • Not directly supported 	<ul style="list-style-type: none"> • Small-scale/local transport infrastructure
<u>Tourism</u>	<ul style="list-style-type: none"> • New or upgraded tourist accommodation • Small-scale tourist visitor infrastructure • Improvements to historical sites • Support as an additional benefit of other investment eg agri-environment or adding value to agriculture and forestry products 	<ul style="list-style-type: none"> • No support for infrastructure development (eg. sites and attractions) • Improving tourism business practices (eg. marketing) and products • No support to farms undertaking diversification into tourism
<u>Support for diversification of agriculture and forestry</u>	<ul style="list-style-type: none"> • Support for the development of new agricultural and forestry products, such as agri-products • Development and restructuring of agricultural and forestry businesses • Support for micro-enterprises in the rural economy 	<ul style="list-style-type: none"> • Support for the innovation capacity of enterprises developing new products based on primary sectors (such as food/drink sector) rather than the development of the products themselves • Support for businesses based on non-agricultural/forestry sectors • Support for typically larger SMEs • No direct support for agricultural, forestry, fishing and aquaculture enterprises
<u>Renewable energy</u>	<ul style="list-style-type: none"> • Small-scale renewable energy facilities for enterprises and communities • Developing raw materials for renewable energy (eg. biomass) 	<ul style="list-style-type: none"> • Support for medium-sized renewable energy facilities in urban and rural areas (to be defined in guidance to be published in advance of each programming round) • Support for developing renewable energy research excellence and commercialisation opportunities • Support for new and high-growth enterprises developing renewable energy

<u>Support for biodiversity</u>	<ul style="list-style-type: none"> • Actions attributable to support and enhance biodiversity 	<ul style="list-style-type: none"> • Support for enterprises commercially exploiting new products based on biodiversity • No direct support for biodiversity, but commitment to ensuring supported projects are 'biodiversity-proofed'
<u>Provision of local services</u>	<ul style="list-style-type: none"> • Direct support to rural community services 	<ul style="list-style-type: none"> • Development of facilities for common economic development use by rural enterprises and communities • Support for plans and strategies to improve community services with an economic development dimension, but not direct support to the services themselves

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 to apply to Scotland as a whole and the Managing Authority is also the Scottish Government Environment Directorate. The key parts of the Highlands & Islands area where demarcation needs to be considered is in the islands and isolated parts of the mainland coast, where EFF support

The main areas where complementarity is evident will be in ERDF Priority 3 in particular, as set out in the following table.

Table 21: Demarcation of EFF and ERDF activity

Type of activity	EFF eligible activities	ERDF eligible activities
<u>Transport infrastructure</u>	<ul style="list-style-type: none"> • Restricted support for port developments directly related to the fishing industry 	<ul style="list-style-type: none"> • Small-scale local port development support relating to links to intermodal transport and to transport for access (eg. ferries)
<u>Support for diversification of the fisheries sector</u>	<ul style="list-style-type: none"> • Development of new fisheries and aquaculture products • Market research to support aquaculture and fisheries, especially for export and niche markets 	<ul style="list-style-type: none"> • Support for the innovation capacity of enterprises developing new products based on primary sectors as well as for high-growth companies based dependent on these sectors • No direct support for agricultural, forestry, fishing and aquaculture enterprises

<u>Support for biodiversity</u>	<ul style="list-style-type: none"> • Sustainable conservation of fish stocks and their ecosystems • Support inshore marine environment 	<ul style="list-style-type: none"> • Support for enterprises developing new products from conservation • No direct support for conservation, but commitment to ensuring supported projects are 'biodiversity-proofed'
<u>Provision of local services</u>	<ul style="list-style-type: none"> • Support for Community groups in the preparation and implementation of the local development strategy 	<ul style="list-style-type: none"> • Development of facilities for use in common by local enterprises and community facilities with an economic development purpose

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 Programmes

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.

For the ERDF Programme, the key areas of complementarity lie in the co-operation and capacities areas. For co-operation, FP7 will support calls for transnational research projects in a number of areas, some of which overlap with the key sectors targeted in the ERDF Programme, particularly:

- food and biotechnology, including food products, life sciences, biotechnology and biochemistry for sustainable non-food products and processes; and
- energy, including renewable electricity generation, smart energy networks, and energy efficiencies and savings.

Support under the capacities theme involve transnational projects in the following areas, which have clear links to the development of the research potential of the region under Priority 2 (notably UHI):

- research infrastructures, including projects promoting better access to research, digital infrastructure, design studies and catalyst funding for new developments;
- research to benefit SMEs, particularly for low and medium-technology enterprises; and
- the research potential of Convergence regions, including two-way staff exchanges and joint conferences.

Previous Structural Funds programmes have developed direct links to the predecessor research programmes. Part of the strategy for ERDF funding in the Highlands & Islands Special Transitional Programme 2000-06 was aimed at building up research capacity within the UHI to enable future engagement in EU-wide research activity through the Framework Programmes. This has been successful to date, with existing 6th Framework Programme activity in social policy (through the Top Mard Project) and planned activity in the new FP7 in life sciences and environmental science. These initiatives would not have been possible without initial ERDF investment, both in building up expertise in subject areas and capacity building around project management. This approach will be further encouraged through this ERDF Programme

Overall, the activities supported through the ERDF Programme have been defined to be demarcated from FP7 but to complement supported projects where appropriate. Support for key sectors under Priority 1 will focus less on 'blue-sky' research than in the industrial application of technologies. Under Priority 2, research infrastructure support will focus on activities relating to development of key research expertise directly linked to their commercial potential in the wider regional business community.

Similarly, the EU Competitiveness and Innovation Framework Programme (CIP) 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 1 of the ERDF Programme.

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

- ERDF project applications will 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 ERDF Programme and project recommendations.

6.6 The European Investment Fund and 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 Fund and the European Investment Bank will be co-ordinated with the use of Structural Funds. The principal funding streams to which this applies are the JEREMIE and JESSICA Initiatives. JEREMIE provides a mechanism for setting up revolving loan instruments for development capital to enterprises while JESSICA provides for repayable and recyclable

assistance to public-private partnerships and other projects for urban renewal and development.

Access to finance is an eligible activity under Priority 1 of the programme. The use of JEREMIE as a mechanism for delivering financial engineering instruments will be investigated during the course of the Programme. With respect to JESSICA, the scope for using the Initiative to support the sustainable communities aims of Priority 3 will be actively explored as well.

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
- Strategic Delivery Bodies

Managing Authority

The Managing Authority of the Programme will be the Scottish Government through the Highlands & Islands Programme Team within the European Structural Funds Division:

Highlands & Islands Programme Team
Scottish Government Business Directorate
European Structural Funds Division
3rd Floor Atlantic Quay,
150 Broomielaw
Glasgow G2 8LU
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 applicable Community and national rules for the whole of the implementation period;
- verifying that the co-financed products and services are delivered and that the expenditure declared by beneficiaries for operations has actually incurred and complies with Community and national rules and that verifications on-the-spot of individual operations have been carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103;
- ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the Operational Programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluations are collected;

- ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- ensuring that the evaluations of operational programmes referred to in Article 48 are carried out in accordance with Article 47;
- setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- ensuring the Certifying Authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- guiding the work of the Programme Monitoring Committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals;
- drawing up and, after approval by the Programme Monitoring Committee, submitting to the Commission the annual and final reports on implementation;
- ensuring compliance with the information and publicity requirements laid down in Article 69; and
- providing the Commission with information to allow it to appraise major projects.

The Managing Authority will pay the beneficiaries on receipt of valid claims. It will also ensure all monies incorrectly paid are recovered and that any financial irregularities are monitored and reported and amounts recovered in line with Article 58 of Regulation 1083/2006. In this context, the Programme will comply with the protection of European Community financial interests as specified in Regulations 2988/95 and 2185/96.

In accordance with Article 59, the Scottish Government had decided to delegate selected Managing Authority tasks to an Intermediate Administration Body (IAB). A single body was responsible for managing and administering these tasks in the ERDF Programme on behalf of the Scottish Government for the whole of the Highlands & Islands region. From 1 April 2012, the IAB ceased to exist and the following tasks will be carried out by the MA:

- information and publicity: to implement the relevant information and 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;
- project verification: to carry out monitoring visits on all projects in fulfilment of Programme obligations and verify that the co-financed products and services are delivered and that the expenditure declared by beneficiaries for operations has actually been incurred and complies with Community and national rules, particularly Article 13 of the Implementing Regulation;
- reporting: to monitor progress towards Programme financial targets and contribute to Programme requirements; and
- secretariat to the Programme Monitoring Committee.

Certifying Authority

The Certifying Authority of the Programme will be the Scottish Government through the Certifying Authority Team in the European Structural Funds Division (with the same address as the Managing Authority above). 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:

- drawing up and submitting certified statements of expenditure and applications for payment to the Commission;
- certifying that the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents, and that the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the Programme and complying with Community and national rules;
- ensuring for the purposes of certification that it has received adequate information from the Managing Authority on procedures and verifications carried out in relation to the expenditure included in the statements of expenditure;
- taking account for certification purposes of the results of all relevant audits carried out by or under the responsibility of the audit authority;
- maintaining adequate records in computerised form of expenditure declared to the Commission; and
- keeping an account of amounts recoverable and amounts withdrawn following cancellation of all or a part of a contribution for an operation.

Audit Authority

The Programme Audit Authority will be the Scottish Government through the Finance Directorate.

Scottish Government Finance Directorate
Audit & Accountancy Services Division
Victoria Quay
Edinburgh EH6 6QQ
United Kingdom

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

- ensuring that audits are carried out to verify the effective functioning of the management and control system of the Operational Programme;
- ensuring that audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- presenting to the Commission within nine months of the approval of the Operational Programme an audit strategy covering the bodies which will perform the audits referred to in the previous two sets of tasks, the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period;
- submitting to the Commission an annual control report setting out the findings of the audits carried out during the previous 12 month-period ending on 30 June of the year concerned in accordance with the audit strategy of the Operational Programme and reporting any shortcomings found in the systems for the management and control of the Programme by 31 December each year from 2008 to 2015 (the first report to be submitted by 31 December 2008 shall cover the period from 1 January 2007 to 30 June 2008 and the information concerning the audits carried out after 1 July 2015 shall be included in the final control report supporting the closure declaration referred to below);
- issuing an 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 control system functions effectively, so as to provide a reasonable assurance to the Commission that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular, by 31 December each year from 2008 to 2015;
- submitting, where applicable under Article 88, a declaration for partial closure assessing the legality and regularity of the expenditure concerned, by 31 December each year from 2008 to 2015;
- submitting to the Commission at the latest by 31 March 2017, a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying

transactions covered by the final statement of expenditure, which shall be supported by a final control report;

- ensuring that audit work takes account of internationally accepted standards; and
- ensuring that any audits and controls referred to above that are carried out by a body other than the audit authority have the necessary functional independence.

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 Government through the Finance Directorate.

Strategic Delivery Bodies

Certain delivery bodies will be designated as Strategic Delivery Bodies and commissioned to deliver parts of the Programme. The Managing Authority will commission these bodies to use Structural Funds to support projects for which they are the only bodies that can deliver, that is clearly additional to the bodies' existing activities and which is fully eligible with the scope of the Programme. Commissioning will take place through outcome agreements setting out planned expenditure, projects to be supported and performance targets. Funding will be expected to support a handful of strategic projects of regional or sub-regional significance.

The designated Strategic Delivery Bodies are:

- Highlands & Islands Enterprise; and
- the UHI.

Highlands & Islands Enterprise (HIE) will be commissioned to deliver a number of strategic projects of region-wide significance under Priority 1 of the ERDF programme. Wholly funded by the Scottish Government, the agency is the chief national agency responsible for economic and community development in the Highlands & Islands region. It is the only body that can support projects to enhance businesses of scale and high-growth companies within the region, in line with the eligible activities set out in the Priority 1 description. HIE will match-fund Structural Funds for the support of a selection of projects under Priority 1.

Strong consideration will be given to the opportunity for joint projects within other bodies such as Scottish Enterprise on Scotland-wide pilot innovative projects through co-ordinated bids on funding with the Lowlands & Uplands Scotland ERDF Programme, similar to the projects funded through the Scottish Innovative Actions Programme.

In addition, the University of the Highlands & Islands Millennium Institute will be commissioned to deliver projects under Priority 2 of the ERDF Programme that will support key infrastructure developments in the UHI and help to ensure the Programme's goal of achieving full university status for the UHI. As the sole higher education body based in the region, the UHI is the only organisation that can deliver this objective on behalf of the Managing Authority. It will complement funding also provided to the UHI under Priority 3 of the ESF Programme (access to lifelong learning).

Projects by the SDBs will need to be fully compliant with the criteria for project selection under the relevant priority, which will be set by the Programme Monitoring Committee in advance of each funding round. The internal selection criteria and procedures used by the SDBs as well as the specific projects to be commissioned will be set out in the outcome agreements. These agreements will describe the proposed projects, setting out their rationale, the selection criteria, the EU value added and their contributions to Programme and priority goals. In their capacity as Strategic Delivery Bodies, both HIE and the UHI will be acting as beneficiaries, as defined by Article 2 or Regulation 1083/2006.

The Managing Authority will commission each SDB outcome agreement for a period of three years. It will have the authority to discontinue the SDB status of the designated bodies within any three-year period. At the start of the three-year period, each outcome agreement will be reviewed by the PMC which will make recommendations to Ministers. Thereafter, the agreements will be formally reviewed on an annual basis by the Managing Authority and the Programme Monitoring Committee for financial and outcome performance, which will also be monitored quarterly by the Managing Authority and reported to Programme Monitoring Committee meetings. Project activity in the outcome agreements may also be revised by the SDBs on an annual basis, as appropriate. Where financial and project performance targets set out in the outcome agreement are significantly and unreasonably under-achieved at the end of the first or second year of an agreement, the Programme Monitoring Committee will have the option of re-allocating all or part of the SDB funding for the remaining year(s) to the competitive bidding pot of the relevant priority. Towards the end of the first outcome agreement, the Managing Authority will commission an evaluation of the SDBs' performance against agreed financial and outcome targets – these will form the basis for decisions on any subsequent outcome agreements by the SDBs.

The roles and responsibilities of the SDBs will be broadly the same as those for other project beneficiaries. The SDBs will receive awards and be responsible for the overall financial management, reporting and accounting of expenditure (such as the submission of quarterly claims). Verification of project activity and expenditure was carried out by the IAB, as for other projects, this will now fall to the function of the Managing Authority.

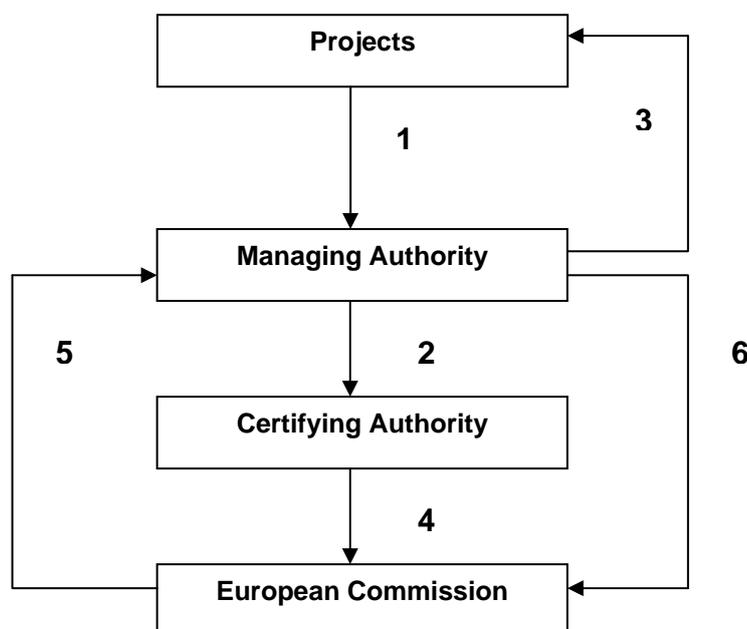
7.2 Financial Flows and Payments

The Certifying Authority will make all payment claims to the European Commission, derived from the declarations of expenditure submitted by beneficiaries. The Managing Authority will maintain systems to identify all Commission receipts as well as all payments to 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. Beneficiaries declare through interim claims expenditure defrayed to the Managing Authority on a quarterly basis. The financial check obligations set out above are made by the Managing Authority.
2. The Managing Authority verifies claim expenditure and ensures that the financial management system contains correct information.
3. The Managing Authority certifies and authorises payments to 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 a 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 authorities and bodies in the region in accordance with national rules and practice. At the consultation stage, the Programme was developed in partnership with key stakeholders such as Local Authorities, the Enterprise Networks, the higher and further education sector, relevant Government departments, social partners, equality commissions, the voluntary and community sector and others who have 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 the implementation of the programme. A single PMC will oversee both the ESF and the ERDF Programmes for the Highlands & Islands 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 and sub-regional interests in the programme, including the economic, environmental and social partners, along with the Scottish Government. As the PMC will bring together both ESF and ERDF interests, membership will be evenly and adequately drawn to ensure full representation of those interests. The European Commission will be represented in an advisory capacity.

The Committee 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 Government representative. The Managing Authority will provide the secretariat function for the PMC and its meetings, under the guidance of the Scottish Government.

In accordance with Article 65 of Regulation 1083/2006, the PMC tasks will be to:

- consider and approve any proposal to amend the content of the Commission decision on the contribution from the Funds;
- consider and approve the criteria for selecting operations eligible for financing under each priority within six months of the Operational Programme approval and approve any revision on those criteria in accordance with programming needs;

- consider and approve annual and final reports on implementation as referred to in Article 67;
- be informed of the annual control report, or of the part of the report referring to the Programme concerned, and of any relevant comments the Commission may make after examining that report or relating to that part of the report;
- propose to the Managing Authority any revision or examination of the Programme likely to make possible the attainment of the Funds' objectives referred to in Article 3 or to improve its management, including its financial management;
- review periodically progress made towards achieving the specific targets on the Programme on the basis of documents submitted by the Managing Authority; and
- examine the results of implementation, particularly the achievements of the targets set for each priority and the evaluations referred to in Article 48.

In addition, the Committee will:

- approve adjustments to applicant guidance;
- monitor co-ordination of funding with ESF, European Agricultural Fund for Rural Development and the European Fisheries Fund in line with the arrangements set out in Chapter 6;
- make recommendations on the SDB outcome agreements and the performance of those agreements, as discussed above;
- consider the recommendations of advisory groups on other projects and set out a list of recommended awards for Scottish Ministers; and
- set up supporting committees, as appropriate.

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

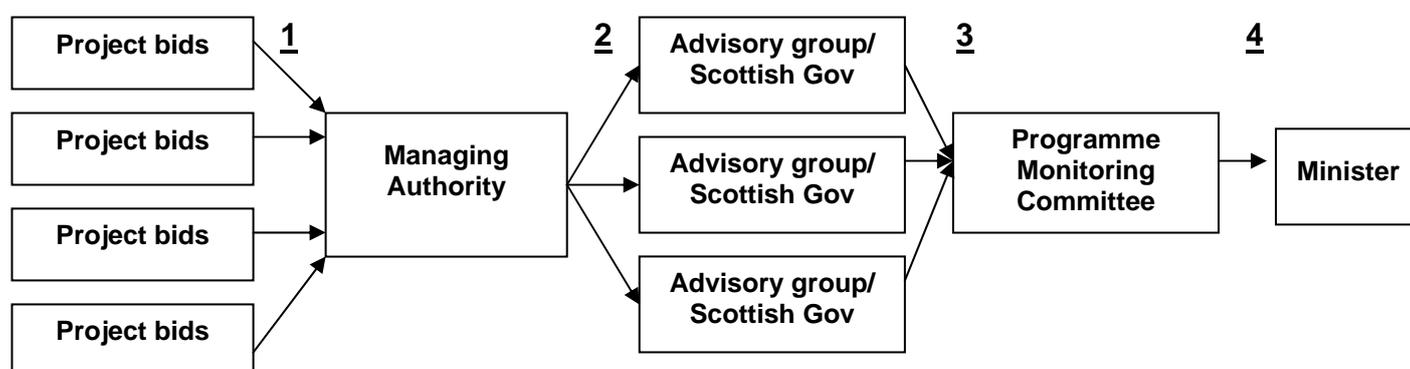
7.4 Award Decisions

The Programme is predicated on projects consistent with Programme objectives and contributing to Programme targets being identified for funding either under direct competitive bidding into the priorities or through SDB arrangements. 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. For the competitive funding, bids will be invited into each priority on an annual basis (as shown in Figure 6).

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

- This is followed by peer and policy appraisal by the Scottish Government and advisory groups (2). Each priority will 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, including key regional partners and Scottish Government policy officials as appropriate, and will 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).

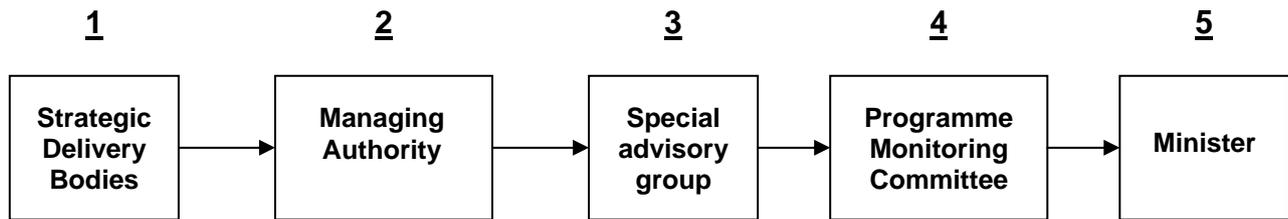
Figure 6: Project appraisal and decisions



As shown in Figure 7, in the case of the Strategic Delivery Bodies, a similar process will take place.

- The SDBs will determine which activity to put into their outcome agreements. All project activity must be fully in line with the project selection criteria agreed by the Programme Monitoring Committee for the relevant priority (1).
- The outcome agreements will be subject to technical/eligibility checks by the Managing Authority (2).
- Following this, the outcome agreements will be subject to policy appraisal by a special advisory group (3). The agreements will then be considered by the Programme Monitoring Committee which will make recommendations on the funding of all or part of the outcome agreements (4). Where some activity within the outcome agreements is not recommended, the SDBs can propose alternative activity to the Committee for further recommendation.
- Formal approval and offers of grant are made on behalf of Scottish Ministers (5). A single offer of grant will cover each outcome agreement.

Figure 7: Project appraisal and decisions for competitive pot projects



7.5 Information and Publicity

Article 69 of the General Regulation 1083/2006 stipulates that the Managing Authority is responsible for setting out information 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 European Structural Funds Division will be the chief body with responsibility for making sure information and publicity obligations are met.

Innovative information and 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 in 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 beneficiaries/recipients will be informed of funding opportunities and also the information and publicity requirements linked to receiving ERDF funding during the programming period. Responsibility for this will lie with the Managing Authority, as set out above.

Project sponsors will be required to respect the information and 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, the Managing Authority will present a communication 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 (as discussed in Chapter 9 below). 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 website – 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.

7.6 State Aids

Any public support under this The Programme must will comply with the procedural and material rules applicable at the point of time when public support is granted. The Member state, and in particular the Managing Authority, is fully responsible for compliance of the Structural Funds operation within the Programme with the EC State aid rules.

7.7 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 Government 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 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.

The effective integration of sustainability into the Programme is fundamental and will be addressed across enterprise, community and environmental actions. The Programme will be directed at generating sustainable local communities which are diverse, adaptable and resilient; sustainable enterprises with well-developed skills and markets; sustainable communities with confidence capability and social and economic vitality; and sustainable use of natural resources including the regions primary products, its natural environment and its cultural assets.

Opportunities to encompass sustainable development involve looking forward and ensuring that the importance of the region's environment is not in any way compromised by other actions. Sustainability is central to the underpinning of regional competitiveness and will therefore be built into the process of decision making in two ways – by encouraging projects which are sustainable and by creating targets, selection criteria and indicators which will encourage appropriate development.

As the Highlands & Islands ERDF 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 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 Government'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 will be 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.

All people and communities will have access to the social and economic benefits that are outlined in this programme. In the Highlands & Islands, this has a particular special dimension in the remoteness of much of the region and the challenges to travel difficulties and small settlements can cause to achieving full equality of opportunity. Consequently, the issue in the region requires full consideration being given to equality of access as well.

The partnership is therefore committed to embracing equal opportunities in terms of both the principles set down in the Treaty of Amsterdam regarding equality for women and men and in terms of promoting equal access to all groups irrespective of gender, race, ethnic origin, disability or geographical location. This will require systematic intervention at each stage of the process of managing and implementing the Programme and through Programme monitoring and evaluation, analyses will be undertaken to ensure mainstreaming of equal opportunities across all priorities and in all sectors and areas, noting in particular specific constraints to equal benefits.

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 direct 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
 - Support for enterprise start-up and development will be monitored to ensure that equality groups are being sufficiently represented. Where under-representation is notable, support will be available to projects to address any particular issues relating to publicity and take-up as well as deeper issues relating to entrepreneurship in certain groups.

- Priority 2
 - In developing the capacity of the region's further and higher education infrastructure, special activities will ensure that those groups particularly disadvantaged by the problems of peripherality and distance from learning institutions will be able to access the educational opportunities provided.
- Priority 3
 - Where support is given for limited infrastructure developments, they will be required to demonstrate that the needs of disabled people were fully taken into account in building design.

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 will mean that explicit consideration of the issues will 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 earlier 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 work 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 Government.
- 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 thematic evaluation during the course of the Programme.

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 will 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 first two strategies were discussed in Chapter 3 above; the other is discussed below.

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. All projects will need to take account of the strategy in making applications and the issue has been given explicit consideration in the Strategic Environmental Assessment of the Programme (as set out in the annex).

There is also a strong tradition of environmental sustainability in Scottish Structural Funds programming. It has been a key horizontal theme in previous 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 Programme. 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.

To reflect these principles, it is important that Structural Funds play a catalytic and leading role in supporting the sustainable development aspirations of Scotland. The Programme will make a positive contribution to climate change and encouraging carbon neutrality wherever possible. Activities supported under the Programme will be assessed to ensure they do not make a negative impact on the environment. In addition, the Strategic Environmental Assessment has made a number of recommendations that have informed the Programme on this theme (as set out in an annex). As a result, 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 types of activities in support of environmental sustainability that will be eligible under the different priorities:

- Priority 1
 - The sustainable commercial use of renewables technologies is supported under this priority with the aim of promoting the development of a thriving new energy sector that would bring together economic development and climate change goals.
 - A specific objective of the priority is to encourage the 'greening' of enterprises through improved resource efficiency. Eligible activities include environmental and carbon-use audits, more environmentally-sustainable production systems and business processes and plans for energy and resource efficiency.
 - The potential for a cultural change in environmental sustainability is more likely to develop with new rather than existing enterprises, particularly where energy and resource efficiency processes are mainstreamed into their practices from the start. In supporting new firm start-ups, the priority will link enterprise development support – whether advice or financial – with requirements for adoption of baseline environmental processes.
- Priority 2
 - Support for improving the renewable energy research capacity of the region by enhancing the centre of research expertises within the UHI and its network will be supported..
 - Tourism projects will not only promote the value of the natural assets of the region, but the importance of maintaining the quality of the landscape environment and the steps required to ensure its sustainable preservation. 'Green' tourism will be explicitly supported as a growth area in the sector.

- Priority 3
 - Community sustainability can be taken forward in the context of environmental sustainability through funding of small-scale infrastructure developments for enterprises that comply with sustainable development goals – for example, the application of environmental building standards and the use of derelict/brownfield sites for development.
 - Where transport infrastructure is supported, projects will need to ensure that environmental sustainability has been taken fully into account in project design, not least in maintaining the quality and biodiversity of the region's natural environment.
 - Activities to raise environmental awareness in communities and enterprises can be directly supported through the Programme.
 - Support for small-scale renewables in local energy generation will contribute to the local dimension of the wider Scottish sustainable development agenda.

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 will mean that environmental sustainability issues will be built into policy and project design at each stage. For example, this will include compliance with minimum construction standards and consistency with the Scottish biodiversity strategy. 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.

As noted, the scope of eligible activity has been extended to provide positive support to some of the issues, as recommended by the Strategic Environmental Assessment. These include:

- Support for environmental audits and carbon-footprint approaches for enterprises (Priority 1)
- Support for resource and energy efficiency initiatives by enterprises (Priority 1)
- Support for 'green design' and higher-than-required construction standards for building/transport projects in support of sustainable communities (Priority 3)

Monitoring has been informed by the Strategic Environmental Assessment as well. The Programme will measure the following on an on-going basis:

- Number of energy-saving and resource-efficiency projects
- Number of renewable energy projects (eg. the number of renewable energy research projects in Priority 1)

In addition, as Chapter 9 sets out, the Programme will conduct a thematic evaluation of the environmental sustainability impact of the Programme at a

suitable juncture during the course of programming, which will examine effects on carbon emissions and energy/resource efficiency.

The instruments for mainstreaming are the same as those for equal opportunities with the exception of the Strategic Environmental Assessment. They build on existing methods which have been tested and assessed under earlier programmes, not just in Scotland but elsewhere in the UK. Not only do the 2007-13 Structural Funds Regulations require a strategic environmental assessment of Operational Programmes, but such assessments are a Scottish legislative requirement for new policy initiatives. For the ERDF Programme, the SEA has provided an environmental profile and baseline as well as an ex-ante commentary on the Programme's impact and handling of environmental sustainability (effectively 'proofing' the documents). The Programme has been developed through iterative feedback with the SEA.

Lastly, in order to ensure that EU funding is channelled and used in an optimum way to promote sustainable development, Member States and the Commission will aim to co-ordinate to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms, including, as well as cohesion policy, rural development, LIFE+, research and development funding, the Competitiveness and Innovation Programme and the European Fisheries Fund.

Consequently, in summary, the Programme will support the sustainable development and climate change aspirations of domestic and EU policy by:

- setting an overall strategic commitment to reducing carbon emissions and energy usage across the Programme as a whole;
- encouraging the development of 'green' economic development projects under the different priorities, notably renewable energy research projects (Priority 1), resource/energy efficiency business processes (Priority 1), support for enterprises developing biodiversity and other 'environmental' products and services (Priority 3), renewable energy generation and distribution (Priority 3), 'green' construction/conversion of business facilities (Priority 1) and 'green' transport initiatives (Priority 3);
- mainstreaming environmental sustainability by requiring all projects to demonstrate how they will address the cross-cutting theme in their projects and ensuring that minimum standards are met as a condition of awards;
- embedding environmental sustainability awareness and expertise in Programme processes through advice to project applicants, advisory group members and programme managers;
- monitoring progress towards the sustainable development commitment through specific indicators and dedicated thematic evaluations, as set out in Chapter 9.

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 discussed 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 Scottish Government 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 additional help for individuals, such as young people, disabled people, ethnic minorities or migrant workers, facing particular barriers to starting up their own business or implementing new developments.
- Priority 2
 - Ensuring that all groups can have equitable access to the education and learning facilities provided by UHI and its network.
- Priority 3
 - Supporting economic regeneration in peripheral and fragile areas to reduce the exclusion and isolation felt by these communities, and increase their prosperity.

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 included a Strategic Environmental Assessment of the Programme.
- Ongoing evaluation of Programme activities. 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 programming life-cycle. 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 the Managing Authority will set up a Scottish Evaluation Group – consisting of membership from the Managing Authority, the IABs and key partners with evaluation expertise – 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.
- Evaluation of specific aspects of Programme delivery. The delivery arrangements in Scotland have altered from the 2000-06 programme. Projects will now be delivered under two systems:

- Competitive bidding – applications administered by the Managing Authority.
- Commissioning of strategic projects – a series of strategic projects, planned through a detailed strategy, by the designated Intermediate Strategic Delivery Body. The performance of the outcome agreement will be evaluated towards the end of the period covered by the agreement.
- 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.

The following table sets out indicative timescales for known evaluations. The Evaluation Strategy will set out the thematic evaluations for the Programme on an annual basis.

Submission of Scottish Evaluation Strategy to the Commission	By December 2007
Evaluation of the IAB	By December 2009
Evaluation of first outcome agreements by SDBs	By December 2009

9.2 Monitoring

Monitoring will be the joint responsibility of the Managing Authority, the Monitoring Committee and SDBs, 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. Data will be stored in the Scottish Government computer system established for collecting/reporting on Structural Funds by the Managing Authority.

In essence, project partners – including SDBs – 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 ERDF 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 SDBs, 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 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 shall 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. Baselines for measuring progress in achieving 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 attributing changes in these regional indicators to Programme activity may be difficult to make because of the small size of Programme resources relative to the Highlands & Islands economy.

- For Priority 1: the region’s total gross value added and average earnings levels relative to the UK, the new firm formation rate and the region’s exports as a share of total Scottish exports (the Programme should contribute to all increasing);
- For Priority 2: the share of total regional employment in knowledge-intensive sectors (the Programme should contribute to this share increasing); and
- For Priority 3: the shares of the 15% most deprived data zones in the region with adequate access to services (as defined as GPs, primary schools and supermarkets) and of individuals regularly travelling more than 20km to their workplace (the Programme should contribute to these shares increasing).

In addition, there will be a Programme-wide indicator 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 indicator is the number of gross jobs created.

Baseline indicator	Baseline source	Baseline figure
<u>Priority 1</u>		
Gross value added in the region relative to UK	ONS (2004)	71%
Average earnings levels in the region relative to UK	ONS (2004)	85%
New firm formation rate	ONS (2004)	27.8%
Regional exports as share of total Scottish exports	Scottish Global Connections Survey (2002)	5%
<u>Priority 2</u>		
Employment in knowledge-intensive sectors as share of total employment in the region	Highlands & Islands Enterprise (2006)	13%
<u>Priority 3</u>		
Share of 15% most deprived data zones in the region with adequate access to services	SIMD (2004)	42.7%
Share of individuals travelling more than 20km to work	Scottish Executive (2006)	14%

Lastly, indicators have also been informed by the Strategic Environmental Assessment. As noted above, a dedicated thematic evaluation of the environmental sustainability achievements of the Programme will be held. To support this, the Programme will measure the following on an on-going basis:

- Number of energy-saving and resource-efficiency projects
- Number of renewable energy projects (eg. the number of renewable energy research projects under Priority 1)

ANNEX A: GLOSSARY OF ACRONYMS

- CPP** – Community Planning Partnership
- 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
- GDP** – gross domestic product
- GVA** – gross value added
- HE** – higher education
- HIE** – Highlands & Islands Enterprise
- ICT** – information and communication technologies
- ISDN** – Integrated Services Digital Network
- IAB** – Intermediate Administration Body
- SDB** – Strategic Delivery Body
- JEREMIE** – Joint European Resources for Micro-Enterprises
- JESSICA** – Joint European Resources for Sustainable Investment in City Areas
- NRP** – National Reform Programme
- NUTS** – Nomenclature of Territorial Units for Statistics
- ONS** – Office of National Statistics
- PMC** – Programme Monitoring Committee
- RTD** – research and technological development
- SIMD** – Scottish Index of Multiple Deprivation
- SRDP** – Scottish Rural Development Programme
- SME** – small and medium-sized enterprise
- SEA** – Strategic Environmental Assessment
- UHI** – UHI Millennium Institute (University of the Highlands & Islands)
- VAT** – Value Added Tax

ANNEX B: REFERENCES

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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;
- ex-ante evaluation of the Programme: EKOS;
- Equal Opportunities Strategic Assessment, led by the ESFD; and
- Strategic Environmental Assessment: Ecodyn.

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 Government 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, initial views were set out 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.

In the Highlands & Islands, there were 21 responses. The geographical spread was relatively even, with some areas providing co-ordinated, single responses (eg. Orkney). Responses came from all Local Authority areas. In terms of sectors, responses came from all the key partner sectors, particularly from the Local Authorities, the higher and further education sector and the main Government and other agencies with a strong policy interest in Structural Funds. The table below sets out the response by sector.

Local Authorities	6
Scottish Government agencies, NDPBs, Government bodies	6
Higher and further education and skills bodies	6
Sub-regional umbrella organisations, Community Planning Partnerships, local representative networks	1
Third/voluntary sector	1
Non-governmental organisations	1
Total	21

In addition, a series of specific workshops involving external partners were run to focus on specific priorities and themes in November and December 2005. The workshops involved the representatives of key partner organisations through a Programme Review Group that acted as a steering group for programme development. Workshops were also held on the two horizontal themes – equal opportunities and environmental sustainability.

At the same time, there was a parallel consultation on the Environmental Reports prepared by external consultants as part of the Strategic Environmental Assessments of the two ERDF programmes. The documents are also available through the website and the end of the consultation was 29 January. The SEA is summarised in another Annex.

Executive summary of partner and Scottish Government responses to the Highlands & Islands consultation

The consultation on the Highlands and Islands 2007-13 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 Convergence Objective of the 2007-13 Structural Funds period: one ERDF Programme and one ESF Programme. The consultation was held in parallel with the consultation of the Operational Programmes for the Lowlands and Uplands Scotland area under the Competitiveness Objective.

In addition to the written submissions for the consultation, there were two other parallel forms of engagement with partners as part of the consultation, principally through a series of workshops held with partners with the Programme Review Group. A separate consultation has taken place on the Strategic Environmental Assessment of the ERDF Programme. The Environmental Statement completing this exercise will be published presently.

Overall, there was a strong response to the consultation, reflecting the historical active engagement of partners in the development of Structural Funds programmes. Twenty-one written responses were submitted altogether from across the region, reflecting the geographical and sectoral diversity of stakeholders in the region.

Socio-Economic Analysis

Partners expressed mixed views on the socio-economic analysis underpinning the Operational Programmes. Many believed that it needed further refinement through the inclusion of more regionally specific detail, further sub-regional analysis (especially of islands areas), greater prominence of the role of the UHI and more analysis of issues such as under-employment, transport and environmental issues. These suggestions have been used to refine the socio-economic analysis for the final version of the Operational Programmes.

Priority Content

On the appropriateness, consistency and coherence of the ERDF priorities, respondents offered mixed views. Overall, respondents felt that the right issues were covered by the priorities, but there were concerns about the breadth of coverage (in light of the limited funding), the lack of prominence for certain issues and the application of any geographical targeting. On allocations, different views were offered on how much each priority should receive.

To clarify the structure and focus of priorities, the Scottish Government has reworked the priority structure. The new Priority 1 focuses on enterprise development issues that are bottlenecks for business growth in the region. Priority 2 supports research and innovation in the region's key sectors and the supporting infrastructure (particularly in the UHI). Priority 3 focuses on community sustainability and will include issues of accessibility and local transport.

With regards to ESF priorities, the main comment made by respondents was that the priorities reflected issues of greater relevance to Lowlands & Uplands Scotland rather than the Highlands & Islands. A number of other specific skills and employability issues were raised by individual respondents as well. In terms of allocations, there was a strong feeling that funding should be rebalanced towards Priorities 2 and 3. In responding, the Scottish Government believes that national priorities should still set the framework for the Programme, but regional issues will feature more in the document. Priorities 2 and 3 will receive a higher allocation in line with partner recommendations.

Comments were also made about the Programmes' fit with domestic and other EU policies. Respondents felt that more attention should be given to *Smart Successful Highlands & Islands* and key national environmental and tourism strategies. 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. A single Programme Monitoring Committee for the two Structural Funds Programmes would help support this. The Scottish Government accepted that strategic fit was paramount for the new Programmes and would continue to work on mechanisms for greater complementarity. The suggestion of a single PMC was welcomed.

Horizontal Themes

Respondents welcomed the cross-cutting themes of environmental sustainability and equal opportunities. A stronger commitment to the environmental sustainability among all delivering partners in the Programmes and the extension of the equal opportunities principle to equality of geographical access were the main suggestions. The Scottish Government

accepts these. In addition, a third cross-cutting theme – social inclusion – has been added.

Delivery

On the delivery of the Programmes, respondents believed that the current system of competitive bidding was a strong foundation for the future. Several suggestions were made for improving the system, including project commissioning and greater streamlining of application and monitoring processes. The Scottish Government shares the view that the current system should be preserved as far as possible, but welcomed the suggestions for refinement. Although raised in the consultation document, it will not introduce project size thresholds for the region, but will examine ways in which applications across different priorities could be better co-ordinated and other steps to reduce administrative burdens.

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 did not feel that the pilot approach proposed by the Scottish Government was appropriate for the region. The Scottish Government accepts this.

ANNEX D: FINAL EX-ANTE REPORT

Introduction

This document presents the Draft Final Ex Ante Report of the Highlands and Islands ERDF-Operational Programme (ERDF-OP) for 2007 to 2013. It is a summary of a longer report.

In January 2006, Economics and Regeneration were commissioned to undertake the Ex Ante Evaluation of the ERDF-OP. The Scottish Executive was the direct contact for the Ex Ante Evaluation study team throughout.

As required by EC regulations (Article 41 of Council Regulation (EC) No 1260/1999), the preparation of an Ex-Ante evaluation and a Strategic Environmental Assessment (SEA) are two key elements, which should accompany the development of an OP for the new Programme period of European Structural Fund activity (2007-2013).

The Ex Ante Evaluation has assessed each chapter of the ERDF-OP in detail. The Draft Final Report represents our appraisal and comments regarding the Final Draft ERDF-OP, including the main changes and amendments made by the Scottish Executive during Programme development.

Chapter 2: Socio-Economic Background

This chapter appraises the Socio Economic Analysis and the SWOT of the Programme and the extent to which a clear overview of the key development issues has been presented, including baseline and trend data, their accuracy and relevance.

Chapter 2 of the OP provides a clear overview of the geographic and socio-economic structure of the Highlands and Islands, including its key development issues focusing on the areas where ERDF interventions can be most effective.

Following a general background discussing population, employment/unemployment and productivity issues, the Chapter discusses specific relevant themes such as enterprise, research and development (R&D), innovation, communities, and access and communications.

With the exception of population statistics, the data used are up-to-date (within the constraints of what is currently available) and well referenced. However, most data are not presented in a tabular form and, therefore, less user-friendly. There are some gaps in the statistical evidence provided for a number of themes, particularly key sectors and R&D. Having said this, the overall discussion of the socio-economic situation of the Highlands and Islands offers good insight into the area's current challenges, opportunities and threats under each theme.

Although sufficient data, including baseline and trend data, are currently not provided for all themes, particularly for the key industry sectors and R&D, the arguments made in Chapter 2 relate well to the envisaged OP actions and achievements. This is well represented by the 'Key Messages', which are identified for each socio-economic theme. In addition, the sections on 'Key Programme Challenges' articulate further the implications of the analysis of the socio-economic factors and identify where the Programme is expected to impact most.

The SWOT is largely consistent with the socio-economic analysis, clearly formulated and well explained, and offers a coherent linkage to the Programme strategy and priorities.

Chapter 3: Policy Background

This chapter was guided by a number of questions focusing on strategic linkages, clarity of presentation, and added value of the ERDF-OP in view of a wide range of policies and strategies.

Chapter 3 of the ERDF-OP puts the identified challenges emerging from the socio-economic analysis in the context of a range of EU, UK and Scottish policies. Two central themes: 'Enterprise, RTD and Innovation' and 'Community Sustainability and Access and Communication' represent the underlying structure for the discussion of the policy contexts at various levels of spatial aggregation.

Overall, the socio-economic development challenges identified exhibit close alignment with relevant elements of the Lisbon Central Policy Areas, the CSG, the NSRF and the UK-National Reform Programme. At the same time, the ERDF-OP supports the implementation of the regional Smart Successful Highlands and Islands strategy objectives and, thereby, establishes effectively a strategic and thematic bridge between European and region-specific development needs.

The linkages to regional strategies, particularly the Smart Successful Highlands and Islands strategy are comprehensively explained and support the intervention logic of the Programme coherently. Although the strategic fit between the ERDF-OP and the national/regional strategies has been clearly established, the added value of the ERDF-OP remains somewhat vague. Having said this, the 'Strategy and Priorities' chapter provides a good insight into the anticipated added value of the Programme under each of the three Programme objectives.

Spatial dimensions and concentration principles, as well as policy linkages to the Scottish Equal Opportunities policy have not been discussed in this Chapter. However, these aspects are covered elsewhere, such as Chapter 2 regarding the spatial dimensions and concentration principles, and Chapter 8 regarding equal opportunities policy.

Chapter 4: Strategy and Priorities

This chapter focuses on issues such as the economic rationale of the strategy and its Priorities, the consistency of the strategy, and the policy risk involved.

The strategy of the ERDF-OP offers a focused and coherent approach to the key development challenges of the Highlands and Islands. Although statistical evidence is sometimes missing, the strategic rationale builds on the:

- experience and legacy of previous Structural Fund Programmes; and
- close strategic fit of the ERDF-OP with the main EU, UK, regional and Scottish economic development strategies and their objectives.

There is a high degree of internal, strategic consistency. The aims and objectives of the three Priorities are clearly explained complementing each other well. In Priorities 1 and 3, close co-operation with the ESF-OP is anticipated, which adds to the overall consistency and relevance of both Programmes, enhancing the potential for positive synergy effects.

In terms of policy risk, the strategy points out that the Programme will engage in supporting pilot activities and engage in some innovative ways of project delivery. In this way the Programme has incorporated a more risk-taking stance, which adds value to existing economic development provision in the Highlands and Islands area. However, the emphasis on supporting innovative action could be stronger, particular in sections identifying eligible activities.

The current range of performance indicators is small and insufficient to represent the aims and targeted activities of the ERDF-OP. In addition, we believe that the quantified targets are too ambitious.

Chapter 5: Financial Allocations

We have not appraised this Chapter as final financial allocations were yet to be confirmed at the time of the drafting of this summary.

Chapter 6: Co-ordination With Other Funds

The appraisal of Chapter 6 is concerned with the linkages to other relevant European Funds and the identified mechanisms to accomplish the co-ordination requirement.

The OP's linkages to other relevant European funds have been clearly established. This includes connections to the European Social Fund (ESF), the European Territorial Co-operation Objective, the EU support for agriculture and fisheries, support through the European Investment Fund and the European Investment Bank and the two research funding programmes: 7th Framework Programme for Research, Technology Development and Demonstration Activities, and the EU Competitiveness and Innovation Framework Programme.

The ERDF-OP is designed to be closely co-ordinated with the ESF OP in order to maximise synergy benefits in a number of Priorities (i.e. ERDF Priority 1 complementing ESF Priority 2; and ERDF Priority 3 complementing ESF Priority 1). The main mechanism to accomplish this close co-ordination is the proposed single Programme Monitoring Committee overseeing both ERDF and ESF Programmes for the Highlands and Islands. This has been described in detail and represents a new approach to co-ordination. The co-ordination of ERDF and ESF funded activities has proven a difficult challenges in past Programmes and the single PMC approach could bring major benefits in terms of increased complementarity and effectiveness of Programme management and administration.

The Ex-Ante evaluation concludes that the ERDF-OP is complying with the ERDF regulations on co-ordination with other European Funds.

Chapter 7: Implementation Provisions

This Chapter appraises the implementation provisions of the Programme with regard to clarity, comprehensiveness and alignment with EC regulations.

The content of Chapter 7 of the ERDF-OP follows closely the requirements as outlined in Regulation (EC) No 1083/2006. The roles and responsibilities of the administrative bodies are explained, including procedures such as 'financial flows and payments', 'award decisions', and the 'exchange of computerised information'. In addition, partnership and committee structures are explained.

The decision to employ Strategic Delivery Bodies (SDBs) is a new feature of the Scottish implementation provisions for Structural Funds. As such, we believe that the selection and use of SDBs requires increased emphasis in this Chapter to demonstrate that new ideas of partnership have been developed in Scotland. The use of SDBs shows that lessons from previous Programmes have been learned and that partnership is intensifying in line with the increased focus of European Structural Funds (although this must not be misinterpreted as a narrowing down of the range of stakeholders involved).

Another new feature is the proposed single Programme Monitoring Committee (PMC) to oversee both the ESF and the ERDF Programmes for the Highlands and Islands area. In light of the need for increased integration of socio-economic interventions and to encourage improved synergy, a single PMC structure, whilst maintaining separate financial Programme regulations and procedures, could be an effective development for Programme implementation.

Chapter 8: Cross-Cutting Themes

Our appraisal considers the provisions for integrating the CCTs and the extent to which they have been explained clearly and comprehensively. Building on past experience and alignment to EC regulation has also been assessed.

The ERDF-OP includes three CCTs: equal opportunities, environmental sustainability, and social inclusion. Each CCT is introduced with a brief overview of its policy background. The aims and rationale for addressing each CCT in the context of the ERDF-OP are also provided. Furthermore, each CCT identifies a range of eligible activities which might be supported under the different Priorities.

Although the ERDF-OP offers a relatively thorough discussion of the CCTs, including their overall context and past experience in the previous Programme round, the implementation processes as such are not discussed in as sufficient detail to enable a full understanding of how project activity will comply to the CCT principles. In this respect, the ERDF-OP does not identify any baselines, targets, selection criteria, indicators, or specific implementation mechanisms such as CCT-advisors for all CCTs. Only with regard to equal opportunities, a specific set of instruments for mainstreaming is presented.

Chapter 9 could benefit from greater cross-referencing with other chapters, such as Chapter 4 'Strategy and Priorities' and Chapter 7 'Implementation Provisions'.

Chapter 9: Evaluation, Monitoring and Reporting

The Chapter assesses the extent to which relevant procedures have been explained and if they convey good governance and transparency.

Chapter 9 of the ERDF-OP presents a clear and sufficiently detailed account of the proposed evaluation, monitoring and reporting processes.

We believe that the provisions will enable the Programme to be transparent and governed according to the relevant ERDF regulations on implementation provisions.

Scottish Government 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.

With reference to several of the specific issues raised here, the Scottish Government comments as follows:

- Chapter 2. The Scottish Government has endeavoured to use the most up-to-date information wherever feasible in developing the Programme area analysis – a key consideration has been using data available at the appropriate level and which is comparable. In some cases, recommendations were made for data that has subsequently proven unavailable, or not existing in a sufficiently robust form for analysis – eg. data on the business base. However, on a number of points, the analysis has been revised to take account of the points of apparent contradiction and lack of clarity flagged up by the ex-ante evaluators.
- Chapter 4. On the issue of indicators and targets, the Scottish Government has taken on board the evaluator comments in refining the indicators listed here and will ensure that comprehensive guidance outlining indicator definitions will be prepared in advance of the Programme's launch.
- Chapter 5. Final allocations have been made by Ministers, in part, taking account of comments on allocations made by the evaluators on earlier drafts of the Programme.
- Chapter 6. The emphasis on co-ordination of ESF and ERDF activity by partners has been strengthened in the Programme and the complementarity of tasks in the EAFRD and EFF tables has been revised.
- Chapter 7. More detail on the role of HIE and the UHI as SDBs has been added to the chapter. However, as the financial envelope for the SDBs has not been agreed at the time of final submission of the Programme, and may well change over the lifetime of the Programme, the Scottish Government did not favour setting allocations at a sub-priority level for SDBs or any other potential beneficiaries of the Programme.
- Chapter 8. More detail on the operation of the cross-cutting themes and relevant indicators have been added in line with the comments and greater cross-referencing has been added. An environmental baseline has now been included in the annex to the Programme. The Programme commitment to environmental sustainability and addressing climate change has also been strengthened in Chapter 8.

ANNEX E: NON-TECHNICAL SUMMARY OF STRATEGIC ENVIRONMENTAL ASSESSMENT

Introduction

This is the non-technical summary of the SEA Statement, which details how the Strategic Environmental Assessment Environmental Report prepared for the Scottish Government's Highlands and Islands European Regional Development Fund Operational Programme 2007-13 and comments received during consultation have been taken into account in the development of the final Operational Programme. The full Statement is available separately.

The Environmental Report was prepared by Ecodyn Ltd and subject to a full consultation on the draft Operational Programme and the Environmental Report from 13 November 2006 to 29 January 2007. This included full consultation with the competent environmental authorities (Historic Scotland, Scottish Environment Protection Agency, Scottish Natural Heritage). In addition, in the full consultation on the Operational Programmes (as described in a previous annex), there were a number of other comments made on the environmental implications of the Programme made by partners.

The ERDF Programme will be the main focus of European support for economic development in the Highlands and Islands of Scotland over the period 2007-2013. EU and national legislation require that a Strategic Environmental Assessment (SEA) be undertaken to establish the impact of the Programme on the region's environment prior to adoption.

Full details of the assessment process and findings are provided in the Environmental Report. The purpose of this Statement is to detail how the findings of the SEA process, including recommendations made in the Environmental Report, and comments received from the statutory consultees, other organisations and the general public during consultation have been taken into account in the final approved Operational Programme.

The Programme has a level of environmental protection built in through European requirements for ERDF monies to be used sustainably. In addition, there is a level of existing environmental protection within Scotland for a range of environmental aspects. However, there are a range of additional measures which the Scottish Government could look to include within the Programme. These were detailed in the Environmental Report. This Statement looks at the degree to which these have been taken into account in the final adopted Operational Programme.

Key changes to the Programme

A number of changes have been made to the Programme based on the findings detailed in the Environmental Report and the responses received during consultation. Full details are given in the Statement. The bullet points detailed below address some of the issues and recommendations raised by the SEA.

Indicators and monitoring

The Scottish Government will introduce the following Programme indicators for which data collection will be ongoing:

- Number of energy-saving and resource-efficiency projects
- Number of renewable energy projects

A thematic evaluation of environmental impacts at the mid-term point in the Programme. This will collect data and make assessment of Programme impact on the following:

- Greenhouse emissions CO₂ and equivalents;
- Number of premises/floor space refurbished/constructed to BREEAM standards;
- Percentage of waste reduced or materials recycled;
- Hectares of derelict/vacant land reused;
- Number of projects ensuring sustainability and improving the attractiveness of towns and cities;
- Area rehabilitated.

Priority-specific issues

For Priority 1 (Sustainable Enterprises), the Scottish Government has:

- Widened the scope of activity to promote actively environmental aspects of business, such as green design and green tourism.

For Priority 2 (Sustainable Communities), the Scottish Government has:

- Widened the scope of activity to encourage community enterprises in eco-tourism and recycling; and
- Committed to ensuring that all new infrastructure will be built to appropriate sustainable construction standards.

For Priority 3 (Sustainable Infrastructure), the Scottish Government has:

- Underlined support for research into the use of environmental technologies;
- Committed to ensuring that all UHI development has minimal negative environmental impacts and actively explore opportunities for using any infrastructure development to showcase new construction techniques;
- Committed to minimising large-scale renewable energy production/generation projects (for which the funding is too limited to support significantly);
- Encouraged sustainable tourism based on the region's natural assets, although funding for supporting improvements to natural sites will be limited; and
- Supported the development of public over private transport where appropriate and the use of clean transport technologies.

How the Environmental Report has been taken into account

The findings of the Environmental Report have been taken into account in the development of the final Programme in a number of ways. Small changes have been made but the key change has been the development of the set of bullet points detailed in the section above. These have been developed largely to enhance the potential positive impacts of existing Programme objectives but also to ensure that the environmental impact of the Programme is monitored.

How consultation comments have been taken into account

During the public consultation, a relatively small number of consultation responses were received specifically on the Environmental Report in contrast to the Programme in general. The most detailed responses came from statutory Consultation Authorities. Some of the comments received were positive or did not lend themselves to a response or action on the part of the Scottish Government. For the remaining comments, the key issue raised was if and how the Scottish Government was going to incorporate the mitigation measures which were recommended in the Environmental Report.

Mitigation will primarily come through the application process where all projects will be required to demonstrate a commitment to environmental sustainability as a core programme criterion at each part in the application form e.g. where relevant in project design, implementation and evaluation. A minimum level of commitment will need to be demonstrated for project selection. This is in addition to specific support for projects with environmental benefits e.g. renewables, business efficiency, green technologies etc.

Alternatives

In the case of the ERDF Operational Programme, the assessment of strategic level alternatives was extremely limited as the Programme's development is strongly led by economic requirements and constraints already established at the national level, including priorities stipulated by European Guidelines and the UK Government National Strategic Reference Framework. The Consultation Authorities felt that the issue of alternatives had been dealt with sufficiently in the Environmental Report.

Monitoring

To meet the needs of the SEA process and European requirements regarding structural funding, a range of monitoring will be undertaken by the Scottish Government on the Programme over the coming years. This will include a number of environmental indicators. In particular, as part of a mid-term Programme evaluation the impact of supported activities on a broader range of environmental indicators will be assessed. The coming months will be used to establish Programme delivery mechanisms including the detail of the monitoring framework.

Scottish Government statement

The Scottish Government has taken full account of the recommendations of the Environmental Report and the SEA Statement, summarised above. This has been an iterative process involving continuing dialogue with the SEA consultants and the designated environmental bodies and has improved the quality of the Programme significantly.

ANNEX F: SUMMARY OF ENVIRONMENTAL SITUATION

Introduction

The following environmental baseline was prepared by Ecodyn Ltd for the Environmental Report as part of the Strategic Environmental Assessment of the Programme.

Overview

The area of the Highlands and Islands stretches for over 640km from Shetland in the north, to Campbeltown at the southern tip of Argyll. The Highlands and Islands has a total land area of just over 39,050km² and a coast line of over 9,000km.

Population

The Highlands and Islands region, as a whole, experienced population growth during the 1990s rising to 361,625 in 2001. However, the general trend is that more remote, fragile and peripheral areas, such as the Western Isles, are experiencing population decline while relatively prosperous population centres, such as Inverness and Nairn, are experiencing population growth.

Projections

The population of the Highlands and Islands as a whole is projected to grow by 2% between 2004 and 2024 (this projection is purely based on fertility and mortality rates and does not take into account potential public sector interventions which may affect population). This, however, masks the variations seen between 1991 and 2001 with the more peripheral and fragile areas projected to see continuing population decline.

Density and Distribution

With a population of around 360,000 and an area of 39,050 km², the Highlands and Islands is one of the most sparsely populated parts of the European Union. Its population density of 9 persons per km² (this falls to 7.8 if the city of Inverness is excluded) compares with an EU average of 116 per km², and is on a par with the northern parts of Finland and Sweden. The Scottish average is 64.8 and the UK figure 242.4. In addition to a very low population density, 23% of the population of the Highlands and Islands (some 99,000 people) live on more than ninety inhabited islands.

Inverness is the largest settlement with more than 40,000 people. The inner Moray Firth (Nairn, Inverness, Dingwall, Alness and Invergordon) contains approximately 70,000 people, nearly 20% of the regions population. 61% of residents live in rural areas or settlements of fewer than 5,000 people.

Low population density leads to additional costs in the provision of goods and services due to a lack of economies of scale and a corresponding business

base while depopulation, particularly in fragile areas, can have an adverse effect on community confidence and service sustainability.

Biodiversity, flora and fauna

Designations

The Highlands and Islands have a low intensity of development and high quality marine and land natural resources. This is reflected in the range and scope of natural heritage designations across the region. In terms of biodiversity this is particularly apparent because of the large areas qualifying for inclusion in the Natura 2000 series under the EU Birds and Habitats Directives (SPAs and SACs). The range and number of protected species in the region also underlines the high level of natural biodiversity. Key habitats within the region include mountain areas, low intensity agricultural land, native woodlands, and marine and coastal zones.

Nature Conservation Designations 2006

Designation*	No of Sites²	Area km³	% of total land area⁴
Special Area of Conservation (SAC)*	154	7,224	18%
Special Protected Area (SPA)*	100	4,719	12%
National Nature Reserve (NNR)	40	797	2%
Ramsar Site	26	2,569	6%
Biosphere Reserve	3	68	<1%
Council of Europe Diploma Site	2	56	<1%
World Heritage Sites ¹ (WHS)	1	255	1%
Environmentally Sensitive Areas (ESA)	6	5,267	13%
Sites of Special Scientific Interest (SSSI)	672	6,749	17%
National Parks (NP)	2	2,380	6
National Scenic Areas (NSA)*	28	11,687	29%

Notes: 1 The St Kilda WHS has dual natural and cultural heritage status.

2 Number of sites includes those that overlap the OP boundary

3 Only the part of the designated site that falls within the OP area has been included in the area totals.

4 Different designations can overlap and the total area for different designations should not be added together.

Source: Data provided by SNH (2006).

Site Condition

SNH have just completed the first cycle of site condition monitoring for designated sites spanning April 1998 to March 2005. 88% of all features on designated sites in Scotland have been monitored and 71% of all features monitored are in favourable condition or classed as 'unfavourable but

recovering'. This monitoring means SNH are better informed on what is happening on designated sites and why it may be happening. This information will be used primarily to bring features on designated sites into favourable condition.

Species

Scotland has some 90,000 species and this is still being counted; the majority (99%) are species of virus, bacteria, invertebrates, plants and fungi. At a more comprehensible level, there are 242 species of birds, 63 different mammals and ten species of reptiles and amphibians.

Scotland has 65 out of the total 159 conservation priority habitats listed in the European Habitats Directive and according to the Scottish Biodiversity list, which contains flora, fauna and habitats considered to be of principal importance for biodiversity conservation, within Scotland there are:

- 1,806 important terrestrial and freshwater species; several are threatened and 117 have shown a decline in the last 25 years;
- 177 important terrestrial and freshwater habitats, 11 are rare and 18 unique to Scotland; and
- 197 important marine habitats and species, 12 of which have declined in the last 25 years.

The UK signed up to the 1992 UN Convention on Biological Diversity and the UK Biodiversity Action Plan (UKBAP) was published to develop formal strategies to protect biological diversity. Between 1995 and 1999, action plans were developed for 45 habitats and 391 species in the UK. Of these, 41 UK BAP priority habitats and 261 species either occur in, or have recently been lost from Scotland. The Scottish Biodiversity Forum is responsible for implementing the objectives of the UKBAP in Scotland and by 2001, action plans had been developed for all the priority habitats and species. Trend data for most of these is detailed in **table x**. By 2005, 32% of the species considered, were stable or increasing, while 14% were in decline. Figures for habitats indicate that 33% of those considered were stable or increasing, while 30% were in decline.

Scottish Biodiversity Action Plan Species and Habitat Trends 2005

	Number of Species	Number of Habitats
Increasing	11	5
Stable	56	8
Declining (slowing)	18	12
Fluctuating (probably declining)	3	1
Declining (continuing/accelerating)	11	0
No clear trend	17	3
Lost (pre UK BAP publication)	3	0
Unknown	90	11
Totals*	209	40

Note: *Based on 209 UK BAP priority species in Scotland

Based on 40 UK BAP priority habitats in Scotland

Source: Scottish Executive Key Scottish Environment Statistics 2006.

Water

Water Quality

The Highlands and Islands area encompasses some of the most diverse hydrological conditions in the UK and includes by far the largest proportion of the surface freshwater resources. There has been considerable hydro-electric development resulting in impoundment, inter-catchment transfer and regulation of river systems but much of the region still exhibits natural runoff characteristics.

Water quality is classified annually by SEPA. In 2004, the net length of unsatisfactory Class C and D rivers, estuaries and coastal waters were all reduced. Overall SEPA's 2006 quality targets have been met well ahead of schedule and further improvements are anticipated. Across Scotland monitoring of river bodies indicates:

- 72% are not affected by pollution;
- 73% are not affected by abstractions or dams; and
- 66% are not affected by engineering works.

Although there are pressures and ongoing quality issues, in general, water quality in the region is high and this is being maintained. With the exception of extreme weather events, water quality issues arise primarily due to human activity and therefore tend to occur in more urban and industrial areas or areas of intensive agriculture. This is less of an issue in the Highlands and Islands region where water quality levels are steadier than at the national level.

Water Bodies at Risk

Despite the above figures, water bodies within the region are still under a range of pressures which put them at risk including: point source and diffuse pollution, abstraction, flow regulation, morphological alterations and alien species. Closer industry regulation means that pollution from point discharges (e.g. sewage and industrial effluent) is becoming much rarer. The focus is now on marginal impacts from more diffuse sources (e.g. agriculture and forestry). These are harder to identify and therefore to control.

Water bodies considered to be at risk 2005

Water Bodies¹	Number	Length / Area
Rivers	913	9,976km
Lochs	167	567km ²
Transitional water bodies	23	507km ²
Coastal water bodies	128	7,720 km ²
Groundwater bodies	25	27,484km ²

Note: 1 Water bodies are taken from the Scotland River Basin District which extends beyond the OP boundary

Source: SEPA Scotland River Basin District Characterisation (2005).

In March 2006, the extension of a new 'sensitive area' status was announced. This will cover more than 80 river and loch locations around Scotland. The status is designed to ensure that sewage discharges from works in these areas are treated to a more stringent treatment standard. There are a number of sites in the region, although the majority are in southern and eastern Scotland.

Drainage

Human impacts on natural water drainage can cause problems such as pollution, exacerbate flooding etc. Sustainable Urban Drainage Systems (SUDs) are one way in which this issue is beginning to be addressed across the UK. The essence of SUDs is to deal with surface water runoff more naturally and in ways which avoid the problems associated with conventional drainage practice. Despite the name, this is a design approach which is equally applicable to the more rural sites found in Highlands and Islands.

A recent report *SUDS in Scotland - the Scottish SUDS database* indicates that the use of SUDS has become standard practice in Scotland, with over 700 sites being listed and nearly 4,000 systems having been implemented. Many planning authorities are now requiring SUDs for new developments.

Groundwater

SEPA monitors both groundwater quality and quantity by operating a groundwater monitoring network across Scotland. There are 3 sites where groundwater levels are monitored in the region and approximately 40 sites

where groundwater quality is monitored. The most recent results are available for 2003 but no clear trend data are available. From the 1st April 2006, implementation of the WFD introduces requirements which should result in a review and expansion of the monitoring framework.

Marine environment and coastal waters

Any consideration of water within the region needs to include the marine environment. 80% of the total land area of the region is within 20km of the coast, and this zone also contains 96% of the region's human population. Many of the region's natural designations also extend into the marine environment. This creates the potential for considerable pressure on environmental quality from human activity in the coastal zones. In June 2005, the Scottish Executive announced the intention to create Scotland's first coastal and marine National Park during 2008. Many of the key candidate areas are in the Highlands and Islands.

Coastal erosion affects most coastlines in Scotland at rates ranging from <1 mm per year on cliffs to 4m+ per year on certain dune coastlines. There is rarely any single, identifiable cause of coastal erosion with both natural and non-natural processes having an effect. Although coastal erosion is not necessarily undesirable from a conservation perspective it can have a significant impact on existing land use and development.

Flood risk

Flooding is an issue in the Highlands and Islands in both low lying coastal areas and in areas close to river catchments. Specific data or maps detailing current flood risk in the region were unavailable at the time of writing. The issue of aquatic biodiversity is dealt with under Biodiversity, Flora and Fauna.

Some research work has been done on future flood risk in Scotland; however it is subject to significant uncertainties. In terms of coastal flooding it is estimated that 1990 100-year levels will on average be reduced to between 20 and 40-year events by 2050. Regional variation is also suggested with the Argyll and Ayrshire coastline being least affected and the far north being most affected. With regards to fluvial flooding the study suggests that the impacts of climate change may be felt to a greater extent in the east and to a slightly lesser extent elsewhere. In the east the flow that currently equates to the 100-year event is likely to become twice as common by 2080. This has implications for current and future flood prevention schemes but as the exact nature of future flood risk is difficult to determine, so are the solutions.

Climatic Factors

Climate

The Highland and Islands climate is typical of the North Atlantic coast, with high rainfall, cool temperatures and high winds. All these are most pronounced in the islands and on the west coast. Scotland has an abundance of rainfall over much of the mainland and the islands. Annual

average precipitation exceeds 4,000mm in parts of the west, falling to less than 600mm along the east coast fringe. Seasonal differences in rainfall are relatively small as Scottish summers can be as wet as winters. However, there is a large year-to-year variation in rainfall, especially between wet and dry summers.

As far as describing the general climate is concerned, it is not necessary to separate out the Highlands and Islands from the rest of Scotland, however, with regards to potential climate change impacts, these will vary across the region. The global climate naturally exhibits long-term fluctuations. However, current trends are unlikely to be entirely natural in origin and there is evidence that human activities are having an impact. These bring wide-ranging implications for Scotland and could affect a whole range of aspects from flood risk, water resources, agriculture, tourism, habitats and species to health. In Scotland:

- 1901-2000 surface temperature rose by 0.61°C;
- By 2100, temperatures are predicted to rise by 3.5°C in summer and 2.5°C in the winter; and
- Rainfall patterns will change to considerably wetter winters and drier summers.

Although these trends may seem modest, and may even be of direct benefit to Scotland, the disruption they will cause to the global economy will have catastrophic secondary effects. Even the relatively smooth trends predicted above will result in the inundation of a large proportion of global economic infrastructure, major disruption to global agriculture and political unrest following changes to freshwater distribution. In addition, more and more positive feedback mechanisms are being identified, such as the lubrication of glaciers by meltwater and their acceleration by the removal of ice sheets, melting of tundra causing release of stored methane and so on, which have the potential to step up the rate of climate change dramatically. This issue should be monitored closely over the lifetime of the plan, as prevailing attitudes may change significantly over that period: the political consensus at the moment is that this is a problem that must be faced on the scale of centuries, or possibly decades. Scientific opinion suggests that, although it is too late to avoid major disruption, it may be possible to avoid catastrophe if decisive action is taken within the next few years.

CO₂ Emissions

Emissions of carbon dioxide (CO₂) contribute to global warming. In 2002, Scotland emitted 44 million tonnes of CO₂ from the production and consumption of energy. CO₂ can also be emitted from other activities such as land-use which disturbs peaty soils. Relative to 1990, overall energy consumption fell in 2002 by just over 2%, partly because of improvements in energy efficiency and the move towards less energy-intensive sectors. However, this has been largely balanced by the increased use of energy for transport. High CO₂ emissions are concentrated in the main urban areas, where houses, traffic, businesses and factories are located. Emissions in the

region are low relative to the Central Belt and Aberdeen with the exception of Inverness.

According to the Scottish Government, Scotland's net greenhouse gas emissions fell by 14% between 1990 and 2003 (from 17.3 to 14.9 million tonnes of carbon). Recent announcements indicate that Scotland will exceed its UK climate change contribution by reducing carbon by an additional one million tonnes in 2010. Although superficially impressive, recent research makes these targets and their achievement seem trivial. A recent report prepared by the Tyndall Centre concludes that a 70% reduction in emissions is required by 2030 if the UK is to achieve the Government priorities of "living within environmental limits" and "achieving a sustainable economy."

(http://www.tyndall.ac.uk/publications/briefing_notes/Livingwithacarbonbudget.pdf)

Excluding the new accession states, many of which have suffered economic decline since the 1990 baseline year, in the EU only the UK, Sweden and Greece have managed to meet even the very small emissions reductions to which they committed at Kyoto.

Renewables

One measure to help offset carbon emissions is through the use of energy sources which are renewable. The Scottish Government is committed to having 18% of electricity generated in Scotland from a range of renewable sources, including biomass by 2010. This is to rise to 40% by 2020. In 2004, 11.5% of the electricity generated in Scotland came from renewable sources, 77% of which was existing large-scale hydro-electric. Other renewables have increased their contribution from 0.6% in 2000 to 2.6% in 2004. This is primarily from existing hydroelectric generators but wind, newer small-scale hydro schemes and thermal renewable sources are beginning to contribute. Across Scotland as a whole, the Highlands and Islands region contains a high proportion of the potential renewable resource.

There are approximately 110 renewable sites in Scotland. 13 of these are large wind farms, and 42 are large hydro schemes. Most of the remainder are small-scale hydro schemes. There is also one wave power station, and also a growing number of solar heating and photovoltaic panels, biofuel heating systems and small-scale wind turbines installed and operating throughout Scotland

Energy Efficiency

Most renewables development is focused on electricity generation, however electricity only makes up 20% of Scotland's energy use. Heating and transport make up the remaining 80%, so there is a need to do much more to support renewable heating (for example biofuels and solar heating), and renewable transport fuels (for example bio-diesels or hydrogen fuel generated from electricity), as well as encouraging better energy efficiency.

Climate Change Adaptation

The Scottish Government has commissioned research work into potential climate change adaptation in Scotland. As with all climate change work, however, it is subject to significant uncertainties, specifically in the nature and therefore potential impacts of climate change. Despite this, the study found that many public and private institutions within Scotland with responsibilities with respect to likely climate impacts (e.g. flooding) already have existing management frameworks which either implicitly or explicitly account for these impacts. This suggests that an adaptation strategy to climate change in Scotland does not require a fundamentally different framework but must be integrated into an existing, often complex, policy framework.

Material assets

Land

Land is probably the key material asset in the Highlands and Islands although much of the land in the region is subject to low intensity land uses. There is a relatively high proportion of forest by UK standards but a significant area of land is too high for cultivation and the potential for agriculture and forestry is limited by the terrain and climate. The environmental quality of the land is in contrast high, as illustrated by biodiversity data and the extent of protected areas.

Land is central to the region's economy, in particular through agriculture, forestry, sport and recreation. However, there is a good deal of land which is essentially undeveloped and urban settlements make up a very small proportion of land use. In 1988, 97% of Scotland's land area was non-urban and about one tenth of the population lived in 'rural' areas.

According to the Scottish Vacant Land and Derelict Survey (2005) over the past 10 years there has been a decrease in land recorded in the survey, partly attributable to land being brought back into productive use. Vacant, derelict and contaminated land is largely an urban issue. The majority of vacant land recorded is in the central belt of Scotland (Glasgow and North Lanarkshire account for 31%) while Fife and Ayrshire account for 46% of all contaminated land recorded. Highland Council has the 3rd highest amount of recorded land at 1,128 hectares (11%), however when you consider derelict land as a proportion of Local Authority area, it is extremely low in the Highlands and Islands. There is also very little known contaminated land in the Highlands and Islands.

Forestry

There are 667,000 ha of national forests in Scotland managed by Forestry Commission Scotland (FCS). This is nearly 10% of the total land area and a significant proportion of this is in the Highlands and Islands. These forests have a specific economic purpose creating employment, often in more remote and rural areas and producing timber for the wood processing

industry. Between 1979 and 1997, 100,000ha+ of public forest was sold off but this was stopped in 1997 and has remained relatively stable since. FCS has diversified and there has been a growth in woodland being developed for recreational activities e.g. biking. There is also more interest in using woodland planting to encourage biodiversity and wildlife.

Waste

In terms of resource use and material assets, waste generation is a major environmental issue. In 2002/2003, a total of 3.35 million tonnes of controlled wastes were collected by, or on behalf of, Local Authorities in Scotland. The majority of this (92%) was for disposal and only 8% for recycling/composting. Stricter legislation is beginning to restrict what can be land-filled and what has to be recovered or recycled. *Scotland's National Waste Plan* sets out objectives for Local Authorities to reduce waste and improve waste management by 2020. Recent figures show that national recycling and composting target for municipal waste of 25% is being met, however most Local Authorities in the Highlands and Islands are below this average (Shetland and the Western Isles significantly so).

Since 1989, the amount of municipal solid waste arisings has varied between 2.9 million and 3.4 million tonnes per year. The latest estimate is 3.32 million tonnes in financial year 2003-2004. Data from other parts of the UK indicate that waste production has been rising at a rate of 2-3% per annum but this is not apparent from the Scottish data. It is not clear whether the Scottish data is reliable enough to assume that Scottish waste production is not also growing. The National Plan set a revised target for municipal waste reduction of achieving zero growth by 2010. This should mean that no more than 3.5 million tonnes of municipal waste would be produced in 2010. Progress is being made on waste but it is still fairly minimal with regard to the scale of the issue.

Recycling

No common indicator is used internationally to measure recycling of household waste. In Scotland the indicator is based on estimates of household waste provided by Local Authorities. It excludes both commercial and industrial waste that is recycled and household waste that are composted at home.

In 2002-2003, an average 10.1% of household waste was recycled in Scotland, which is a slight improvement on the previous year. A further 2.2% of household waste, representing a similar tonnage as the previous year, was used for the recovery of heat, power or other energy sources

In previous years, rural councils have generally recycled more household waste than urban councils. The Highlands and Islands region is made up of Local Authorities which are all defined as rural for the purposes of waste collection. In 2003-2004 this trend changed with 13.2% of household waste in urban councils recycled compared with 12.3% of household waste in rural

councils. The national target is to recycle or compost 25% of municipal waste by 2006.

Cultural heritage, including architecture and archaeology

Designations

Scotland has a rich heritage of 'ancient monuments' - archaeological sites, ruins, structures and buildings, which include the settlements, temples, tombs and forts of the early inhabitants, the remains of the Roman occupation, the humble dwellings and great church buildings of the middle ages, the remains of Scotland's industrial heritage and the defences erected against invasion in the 20th century.

Because of the high level strategic nature of the OP, it is not considered useful to collect data and map all the historic features in the region as a baseline list. Instead, it is considered that a good understanding of what constitutes the historic environment and therefore what may be impacted on by the Programme is more useful.

For the purpose of this SEA and based on discussion with Historic Scotland, the historic environment is understood to comprise the following features:

- scheduled ancient monuments (SAMs);
- historic and listed buildings;
- conservation areas;
- designed gardens and landscapes;
- archaeological sites including maritime archaeology;
- townscapes;
- historic landscapes; and
- the wider setting of the features listed above

The Highlands and Islands has a significant share of this rich cultural heritage. Cultural heritage is protected in a similar way to natural heritage through various designations and listings. Designation does not preclude development and the loss of cultural heritage to insensitive or destructive developments is always a concern.

Buildings at Risk

The Scottish Civic Trust maintains a Buildings at Risk Register on behalf of Historic Scotland. This was established in 1990 and although its principal purpose is to assist the sale or lease of historic buildings in need of rescue it highlights some (although not all) properties of architectural or historic merit throughout the country that are considered to be at risk or under threat. At the time of writing the Register contained details of approximately 1,300 buildings (refer to the Appendix). Most buildings on the Register are also listed.

Landscape

Landscape designations cover a considerable percentage of land in the Highlands and Islands, specifically; nearly 30% of the land area is covered by 28 National Scenic Areas. Similar to biodiversity designations, this has a significant bearing on land use. Describing landscapes and placing a value on their importance can be extremely difficult, not least because they constantly evolve. To help the process, SNH has undertaken a Landscape Character Assessment Programme for the whole of Scotland in partnership with local authorities and other organisations. 12 regional studies carried out in the Highlands and Islands provide a comprehensive inventory of the landscape of the region and are designed to provide assistance in managing landscape change.

The physical qualities and cultural heritage of the Highlands and Islands result in a very diverse landscape. This is a unique resource for both residents and visitors. Landscape and scenery are some of the main attractions for tourists to the region (see Tourism below).

Transport and access

Accessibility

Remoteness is an issue in the Highlands and Islands. The Scottish Index of Multiple Deprivation looks at a number of aspects but one specifically concerned with access. This is measured by the drive time to specified services (GP, supermarket, petrol station, primary school and post office) and captures a set of problems such as financial cost, time and inconvenience. Unsurprisingly, remote areas and the Island Authorities score particularly poorly.

The concept of 'fragile areas' is also used to describe parts of the region. These are areas which are economically and socially disadvantaged, characterised by a number of factors including poor infrastructure and remoteness.

Transport Services

The region is served by standard transport services: air, rail, ferries and bus and an extensive road network. However, geography and natural features limit the extent of transport services and access to certain communities is limited. Under previous Structural Fund Programmes considerable support has been allocated to address these issues, funding ferry infrastructure, roads projects and the Highlands and Islands Airports Limited Development Programme.

Whilst transportation and access to services and facilities may be an issue, public access in terms of land for leisure and recreation is extremely good across the Highlands and Islands. In addition to formal routes and rights of way, the Land Reform Act has ensured far greater access to land and water

ways across the country. This is an extremely important tourist resource for the region.

Countryside Access

The Land Reform (Scotland) Act came into force in 2003 ending the historic legacy of feudal law and created a framework for responsible access to land and inland water as well as for rural and crofting communities to have the right to buy land in their area. The Act sets precedence for the rights of responsible access across Scotland which has significant bearing on development activities and tourist, leisure and recreation activities such as walking, climbing and canoeing.

In addition, under the Act, Local Authorities are currently required to establish a network of core paths in their area. The Core Paths Plan will designate a system of paths sufficient for giving the public reasonable access throughout the area and are aimed at helping and encouraging people to exercise access rights. It is likely that the core paths network will incorporate some existing paths and rights of way but it may also promote other new paths helping to make links where useful paths have not previously existed.

Within the region there are numerous existing pathways including two long distance routes.

Tourism

Scotland is an extremely popular tourist destination and tourism is very important to the economy, especially in more remote areas. Over the past 30 years, tourism in Scotland has grown by 43% but has changed in focus. UK visitors are spending fewer nights but more money, reflecting a rise in short breaks. Over the long term, the growth has come primarily from overseas. Over 18 million tourists took overnight trips to Scotland in 2003. According to a Tourist Attitudes Survey:

- seven in ten visitors to Scotland specifically visit areas in the Highlands and Islands;
- by far the main attraction is the landscape, countryside and scenery;
- specific aspects mentioned were mountains, hills, lochs, rivers, and the nature and wildlife; and
- cultural heritage is also a key attraction for one in five visitors.

Environmental management and research

The number of companies implementing environmental management systems (EMS) within the UK is growing. An EMS goes beyond minimum legal compliance and demonstrates continuing improvement in environmental performance. Invariably this directly improves economic performance. In Scotland there are:

- seven companies registered with the EU EMAS (Eco-Management and Audit Scheme); and
- 208 companies registered with ISO14001.

There are a number of different EMS accreditation schemes and many companies are also implementing the basics of an EMS to help manage their environmental impacts and obligations.

New research co-coordinated by Envirowise suggests that Scottish businesses place more importance on improving green policies than businesses in other parts of the UK. The Tomorrow's World report indicated that 48% of Scottish companies believe improving green policies will enhance their market opportunities, compared with only 23% of companies in the rest of the UK. However, many of these Scottish businesses are failing to actually implement and benefit from environmental management. The report also reveals that 52% of Scottish respondents stated that they did apply pressure to their suppliers to reveal information concerning the management and improvement of their environmental impacts but only 22% of Scottish companies stated that they themselves had a formal environmental planning process through which they identified environmental policies, goals or targets.

In tandem with growing environmental awareness across the business sector and the public in general, environmental research has increased. Although the academic sector has arguably always been ahead in terms of trying to understand environmental issues, numerous higher education institutions now have an environmental research capacity. The UHIMI is no exception and has a dedicated Environmental Research Institute, based at the Northern Highland College in Thurso, where research is focused on climate change, waste issues and new technologies.

Gaps, limitations and future data

Within the SEA process, data collection cannot continue indefinitely. This means that there are likely to be gaps in data collection and data can be superseded during the process of consulting on and completing the SEA. In addition, there are often issues with regard to data quality (eg. how current it is, what level it corresponds to). Where this is the case this has been highlighted through the SEA. Fundamentally, this may affect the level of environmental assessment which can usefully be made. To improve the process and future SEAs, recommendations have therefore been made where appropriate on future data collection. The requirement to monitor will also help to produce some of this data for future SEAs.

The main issues encountered with regards to data were:

- Availability - not all the data which it is considered would be useful is available at the moment e.g. flood risk maps for Scotland and River Basin Management Plans; and

- Comparability - in some cases the data is available for a single year or the parameters change between years. This means that comparison or trend analysis is not always possible.

On the positive side, on the whole, where data exists it is generally fairly current. In addition, although coverage is often restricted to the Scottish level, due to the nature of the Programme and the environmental impacts considered, this geographical level is generally appropriate for the purposes of this SEA. Requiring all data to be specifically at the Highlands and Islands regional level would be difficult and in many cases e.g. with regards to climate and climate change, this is not really required.

Environmental trends, issues and problems

Schedule 2 of the Regulations requires that the environmental report includes a description of existing environmental problems, in particular those relating to any areas of particular environmental importance. The purpose of this section is to explain how existing environmental problems will affect or be affected by the OP, and whether the Programme is likely to aggravate, reduce or otherwise affect existing environmental problems.

Details of the key environmental trends, issues and problems relevant to the Programme and the Highlands and Islands are given in the table below. This section is based on discussions with the CAs, specifically feedback on the Scoping Report, the detailed environmental baseline and Programme context.

Environmental Trends, Problems and Issues

SEA Topic	Key Trends, Issues and Problems including Supporting Data	Data Sources	Implications of, and/or for, the Programme
Population	<p>Population Growth</p> <p>The population of the Highlands and Islands as a whole is projected to grow by 2% between 2004 and 2024 (this projection is purely based on fertility and mortality rates and does not take into account potential public sector interventions which may effect population). However, there is a split with more remote and peripheral areas, such as the Western Isles, experiencing considerable population decline while centres, such as Inverness and Nairn, are experiencing population growth through in-migration. Population decline in remote areas brings problems in terms of economic stability. Conversely, population increase puts pressure on specific geographical locations and resources such as land. This also brings associated problems with waste generation, traffic etc.</p> <hr/> <p>Distribution and Density</p> <p>The region has an average population density of 9 persons per km². This compares with an EU average of 116 per km² and is on a par with the northern parts of Finland and Sweden. In addition, 23% of the population live on more than ninety inhabited islands. This makes the provision of many services difficult e.g. public transport and recycling etc</p>	GROS Population Projections (2005)	The Programme has the potential to have a positive impact on some of the problems experienced by both the fast growing population centres and the more remote and fragile communities in the Highlands and Islands through all three Priorities. Sustainable economic development is fundamental to maintaining population in fragile communities and also ensuring growing population centres do not have a negative impact on the environment.
Human Health	<p>Life Expectancy</p> <p>Life expectancy in general is increasing throughout Scotland. Life expectancy is higher in the Highlands and Islands than the Scottish average, although this is influenced by many complex factors not just provision or access to health care. A good environment, free of pollution, with clean water, clean air and facilities which enhance quality of life also plays a considerable part.</p> <hr/> <p>Deprivation</p> <p>Within the Highlands and Islands there are very few areas which fall within the most deprived 10% in Scotland in terms of factors such as health and education. There are however key issues with regards to access and infrastructure. This is unsurprising and is due to the remote and rural nature of much of the area. This aspect is considered below under Transport and Access.</p>	<p>Healthy Life Expectancy in Scotland (March 2004)</p> <hr/> <p>SIMD 2004;</p> <p>Fragile Areas</p>	The Programme has the potential to have impacts on aspects which contribute to human health e.g. good water infrastructure, employment opportunities, tourism, and community regeneration. These impacts will depend on the nature of the projects supported but will primarily be indirect. The potential to <i>significantly</i> impact on human health (either + or -) is however, considered to be outwith the scope of the Programme (refer to section x).
Biodiversity, Flora and Fauna	<p>Designations</p> <p>The number of designated sites has increased in the Highlands and Islands in the last few years corresponding to a growth in legislation. It is one of the most heavily designated regions in the UK in terms of numbers and the % of land area covered by natural heritage sites. For example:</p> <ul style="list-style-type: none"> ■ 18% of the region is covered by 154 SPAs; ■ 12% by 100 SACs (these include marine areas); and ■ 17% by 672 SSSIs. <p>This has a significant bearing on land use and there is potential for conflict with other interests such as economic development.</p>	<p>SNH Annual Report 2003-2004;</p> <p>SNH Designation Data 2006</p>	The Programme should not support projects which will cause harm to biodiversity in the Highlands and Islands, specifically with regard to protected species and designated areas. Beyond this statutory requirement, there is some scope for the Programme to enhance or improve biodiversity through the specific projects which are ultimately funded. This particularly relates to sub-objective 3.3 concerned with maximising the benefits of tourism and environmental heritage and Priority

Site Condition	<p>The condition of sites is also a concern with the results of a recent site monitoring programme indicating that nearly 30% of features within the designated sites which were monitored are in unfavourable condition. The focus of much of SNH's work is to address both issues through promoting good land management and monitoring.</p>	<p>Scottish Biodiversity Strategy (2005); Key Scottish Environment Statistics 2006</p>	<p>2 looking at Community Regeneration. Funding could potentially be used to improve aspects such as site condition or to encourage habitat creation e.g. community wildlife gardens. Several sub-objectives under Priority 3 could, however, also have negative impacts on biodiversity e.g. renewable development. There will be more scope in the SRDP to get specifically involved in projects with a positive biodiversity aspect.</p>
Species and Habitats	<p>The Highlands and Islands are home to several species and habitats listed at the European level. According to the Scottish Biodiversity list, which contains flora, fauna and habitats considered to be of principal importance for biodiversity conservation, within Scotland, there are around:</p> <ul style="list-style-type: none"> ▪ 1,800 important terrestrial and freshwater species, several are threatened and 117 have shown a decline in the last 25 years; ▪ 170 important terrestrial and freshwater habitats. 11 are rare and 18 unique to Scotland; and ▪ 200 important marine habitats and species, 12 of which have declined in the last 25 years. <p>Declines are specifically recorded for certain bird species, natural and semi-natural habitats and commercial salmon catches, although species and habitat trends vary considerably with declines as well as increases indicated in the available data. Complex interactions effect biodiversity but species trends are often closely related to habitat condition where changes are often associated with land management and atmospheric pollution. In terms of the latter effects of climate change may become increasingly important and evident in the future.</p>		
Soil	<p>Soils</p> <p>Soil patterns in the Highlands and Islands are influenced heavily by climate and the underlying geology. This dictates habitat types and directly affects the potential for types of land use such as forestry and agriculture. Most soils are shallow and in some parts of the region soil erosion is becoming an issue, particularly due to heavy recreational pressures e.g. ski centres or popular walking routes.</p> <p>Contaminated Land</p> <p>There is very little known contaminated land in the Highlands and Islands. Currently 92 hectares has been recorded, 96% of this in Inverness, Nairn and Ross and Cromarty. Contaminated land is a much greater issue in the central belt of Scotland.</p>	<p>SNH The Soil Landscapes of Scotland Scottish Vacant and Derelict Land Survey 2005</p>	<p>In the past, Programmes have supported the reclamation of brownfield and contaminated sites. Depending on specific projects this may happen again. However, there is little contaminated land in the region and the impact on soils from the level of projects supported is unlikely to have a <i>significant</i> impact on the soil resource in the region.</p>
Water	<p>Water Quality</p> <p>Water quality is classified annually by SEPA. In 2005, the net length of unsatisfactory class C and D rivers, estuaries and coastal waters were all reduced. Overall, SEPA's 2006 quality targets have been met well ahead of schedule, and further improvements are anticipated. In general the quality of waters is high in the region and this is being maintained. With the exception of extreme weather events, water quality issues arise primarily due to human activity and therefore tend to occur in more urban and industrial areas or areas of intensive agriculture. This is less of an issue in the Highlands and Islands region where water quality levels are steadier than at the national level.</p>	<p>SEPA Water Quality Classification Data (2005)</p>	<p>The Programme is unlikely to impact negatively on water quality, which is closely monitored and controlled by SEPA. However, there is potential under Priority 3 to support projects which may have an impact on water quality e.g. transport, tourism and renewables. Wherever possible projects should be developed in a way which will have a positive impact on water quality e.g.</p>

Water Bodies at Risk	<p>Water bodies within the region are under a range of pressures, which put them at risk including: point source and diffuse pollution; abstraction; flow regulation; morphological alterations; and alien species. Closer industry regulation means that pollution from point discharges (e.g. sewage and industrial effluent) is becoming much rarer. The focus is now on marginal impacts from more diffuse sources (e.g. agriculture and forestry). These are harder to identify and therefore control. Water bodies¹ considered to be at risk from one or more of the above pressures, include:</p> <ul style="list-style-type: none"> ▪ 913 rivers (9,976km); ▪ 167 lochs (567km²); ▪ transitional water bodies (507km²); ▪ 128 coastal water bodies (7720 km²); and ▪ groundwater bodies (27,484km²). 	<p>SEPA Scotland River Basin Characterisation Report (2005)</p>	<p>through the implementation of Sustainable Urban Drainage.</p> <p>Wherever possible the Programme should try to improve water quality and the water environment. This is in accordance with the WFD.</p>	
Marine Environment	<p>80% of the total land area of the region is within 20km of the coast, and this zone also contains 96% of the region's human population. Many of the region's natural designations extend into the marine environment. This creates the potential for considerable pressure for environmental quality and human activity in the coastal zones. Sea level rise and erosion are also ongoing issues, with particular concerns for low lying areas such as South and North Uist in the Western Isles.</p>	<p>SNH; SEPA</p>	<p>Due to population distribution it is likely that the Programme will support projects within close proximity or actually on the coast. The issues of marine environment and coastal zone will need to be taken into account e.g. under the renewables sub-objective could be tidal or offshore.</p>	
Air	Air Quality	<p>Air quality in the region is on the whole extremely good. No Local Authorities have, as yet, needed to designate any Air Quality Management Areas. There are localised air quality issues relating to specific industrial processes and several of these are located in Inverness, which as the only major urban centre also has the highest traffic concentrations. However this is being monitored through regimes such as IPPC and local measuring programmes.</p>	<p>SEPA SPRI Emissions Data; National Air Quality Archive;</p>	<p>The Programme will not <i>significantly</i> impact on air quality and as yet, there are no major air quality concerns which the Programme could seek to address.</p>
Climatic Factors	Climate Change	<p>The global climate naturally exhibits long-term fluctuations. However, current trends are unlikely to be entirely natural in origin and there is evidence that human activities are having an impact. These bring wide-ranging implications for Scotland and could affect a whole range of aspects from flood risk, water resources, agriculture, tourism, habitats and species to health. In Scotland:</p> <ul style="list-style-type: none"> ▪ Between 1901-2000 surface temperature rose by 0.61°C; ▪ By 2100, temperatures are predicted to rise by 3.5°C in summer and 2.5°C in the winter; and ▪ Rainfall patterns will change to considerably wetter winters and drier summers. 	<p>Key Scottish Environment Statistics 2005</p>	<p>A changing climate is one of the biggest challenges facing the world today. Almost all activities supported by the Programme could have impacts (both + and -) on climate change, primarily through emissions of CO₂ and other greenhouse gases. Under Priority 3, the Programme has 2 sub-objectives which have the potential to support conflicting interests with regards to climate change, strategic transport</p>

Carbon Dioxide and Energy Use	<p>Emissions of carbon dioxide (CO₂) contribute to global warming. In 2002, Scotland emitted 44 million tonnes of CO₂ resulting from the production and consumption of energy. CO₂ can also be emitted from other activities such as land-use which disturbs peaty soils. Relative to 1990, overall energy consumption fell in 2002 by just over 2%, partly due to improvements in energy efficiency and the move towards less energy-intensive sectors, however, this has been largely balanced by the increased use of energy for transport. High CO₂ emissions are concentrated in the main urban areas, where houses, traffic, businesses and factories are located. Emissions in the region are low relative to the Central Belt and Aberdeen with the exception of Inverness.</p>	<p>Scottish Energy Study: Volumes 1 and 2 (2006)</p>	<p>and renewable energy (there may be others). The Programme should seek to reduce carbon emissions and encourage energy efficiency and greener transport. Under Priority 1 the programme could also promote RTD looking at cleaner technologies. There is a further consideration specifically under renewables. The promotion of electricity generated from renewables is an important element of the Scottish Climate Change Programme. Whilst the overall effect will be positive on climate change, there is potential for negative effects on landscape and possibly biodiversity. As a significant proportion of Scotland's renewable energy resources lie within sensitive areas. This issue is particularly important as climate change is the only environmental issue which is not currently regulated to some degree by an existing regime e.g. planning or environmental protection.</p>
Renewable Energy	<p>The Scottish Government is committed to having 18% of electricity generated in Scotland from a range of renewable sources, including biomass by 2010. This is to rise to 40% by 2020. In 2004, 11.5% of electricity generated in Scotland came from renewable sources. Between 2000 and 2004 renewable production has increased by 19% (although this is from a relatively low base). The contribution of renewables to overall electricity generation in Scotland has risen from 11% in 2000 to 13% in 2004. This is primarily from existing hydroelectric generators but wind, newer small-scale hydro schemes and thermal renewable sources are beginning to contribute. The majority of electricity is still generated from traditional energy sources, with nuclear comprising more than a third (35%), coal, and oil and gas just over one-quarter respectively (26% each).</p>	<p>Scottish Energy Study: Volumes 1 and 2 (2006)</p> <p>Key Scottish Environment Statistics (2006)</p>	<p>The Programme has the potential to impact on material assets in the region. Due to the available resource, any land take is unlikely to be significant although brownfield development should take preference over greenfield where possible. Certain industries such as forestry could benefit from the Programme, which may be able to support diversification and projects for recreation or new community woodlands.</p>
Material Assets	Land	<p>Land Use in the Highlands and Islands;</p> <p>Scottish Vacant and Derelict Land Survey 2005</p>	<p>Resource use and waste are however, significant issues. Almost all development activities use resources and generate waste from construction debris to office paper. The Programme should look to encourage resource efficiency and waste minimisation wherever possible, including moving further up the waste hierarchy and trying to minimise at source. Sub-objectives such as encouraging RTD and providing infrastructure</p>
Forestry	<p>There are 667,000 ha of national forests in Scotland managed by the Forest Commission Scotland (FCS). This is nearly 10% of the total land area and a significant proportion of this is in the Highlands and Island. These forests have a specific economic purpose creating employment, often in more remote and rural areas and producing timber for the wood processing industry. Between 1979 and 1997, well over 100,000 ha of public forest were sold off but this was stopped in 1997 and has remained relatively stable since. FCS has diversified and there has been a growth in woodland being developed for recreational activities e.g. biking and walking. There is also more interest in using woodland planting to encourage biodiversity and wildlife.</p>	<p>FCS Land Review 2004</p>	

	<p>Waste</p> <p>Waste generation is a major environmental issue. In 2002/2003, a total of 3.35 million tonnes of controlled wastes was collected by, or on behalf of, Local Authorities in Scotland. The majority of this (92%) was for disposal and only 8% for recycling / composting. Stricter legislation is beginning to restrict what can be land-filled and what has to be recovered or recycled. Scotland's National Waste Plan sets out objectives for Local Authorities to reduce waste and improve waste management by 2020. Recent figures show that across Scotland the recycling and composting target for municipal waste of 25% is being met, however most Authorities in the Highlands and Islands are below this average (Shetland and the Western Isles significantly). Progress is being made but it is still fairly minimal with regards to the scale of the issue.</p>	<p>SEPA Waste Digest; Municipal Figures 2006</p>	<p>could have a positive impact on waste and resource use if directed appropriately.</p>
<p>Cultural Heritage</p>	<p>Designations</p> <p>Cultural heritage is protected in a similar way to natural heritage through various designations and listings. Designation does not preclude development and the loss of cultural heritage to insensitive or destructive developments is a concern. The trend in designations is changing annually, not least of all due to Historic Scotland's scheduling and listing programmes. Currently within the Highlands and Islands there are just under:</p> <ul style="list-style-type: none"> ▪ 3,000 Scheduled Ancient Monuments; and ▪ 8,000 Listed Buildings (all grades) <hr/> <p>Historic Features</p> <p>The historic environment as a whole comprises a range of features and aspects not just those which are designated, including: SAMs; historic and listed buildings; conservation areas; designed gardens and landscapes; archaeological sites including maritime archaeology; townscapes; historic landscapes; and the wider setting of the features listed above. For many of these aspects trends or unknown.</p>	<p>Historic Scotland PASTMAP 2006</p>	<p>The Programme should not support projects which will impact negatively on cultural heritage in the region, specifically with regard to listings or designations. The main potential negative impacts relate to loss, damage or changes in setting. Beyond statutory requirements, there is scope for the Programme to enhance or improve cultural heritage through the specific projects, which are ultimately funded. This particularly relates to the sub-objective concerned with maximising the benefits of tourism and cultural heritage, for example, bringing listed buildings back into viable use.</p>
<p>Landscape</p>	<p>Designations</p> <p>Landscape designations cover a considerable percentage of land in the Highlands and Islands, specifically; nearly 30% of the land area is covered by 28 National Scenic Areas. Landscape and scenery are some of the main attractions for tourists to the region (see Tourism below). Similar to biodiversity designations, this has a significant bearing on land use. Landscape change is a natural as well as human induced process and quantifying landscape value and the impact of various types of developments is a complex process.</p>	<p>SNH Designation Data 2006</p>	<p>Through the various projects which will be supported, the Programme has the potential to impact on landscape. Many of the impacts will be localised and small scale however these have the potential for cumulative impacts at the landscape level. There are a number of sub-objectives with the potential to cause effects at a scale which could be significant to landscape e.g. strategic transport, infrastructure and specifically renewables.</p>

Transport and Access	<p>Transport Services</p> <p>Transport provision throughout the region is heavily influenced by geography, which limits certain services such as rail and makes other services such as ferries and air travel essential. To the 90+ inhabited islands these represent lifeline links. A 2005 study found that:</p> <ul style="list-style-type: none"> ▪ Air services increased across the region 2004 to 2005 with the introduction of a number of new flights. Passengers at the region's twelve main airports increased, by 9%, to 1,266,000. ▪ Service provision on ferries, rail and buses has both decreased and increased with the addition of new services in some areas but the cessation of others. ▪ The region's trunk roads have relatively low traffic flows. The busiest (A96-Forres) is ranked 20th out of 37 Scottish trunk roads for which data are collected. Demand is relatively seasonal and on the A9 and A82 average flows demonstrate the importance of non-business/commuting traffic. ▪ Fuel prices per litre in remote Scottish areas are higher than the national average. The differential was 4.1 pence, equating to a premium of 5% over the Scottish level. 	Transport Provision and Trends in the Highlands & Islands (2005)	One of the sub-objectives within the Programme specifically seeks to support strategic transport, which improves access and reduces peripherality. This is important for access and population but also has the potential to impact negatively on a number of environmental aspects most notably climate change through carbon emissions etc. This depends on the nature of the projects supported but should be taken into account.
	<p>Access and Telecommunications</p> <p>Areas within the Highlands and Islands are some of the most deprived in Scotland with respect to geographic access and telecommunications. Within the SIMD this aspect is measured by the drive time to specified services (GP, supermarket, petrol station, primary school and post office). This captures a set of problems such as financial cost, time and inconvenience. The Island Authorities score particularly poorly on this aspect.</p> <p>Since 2006 every community in Scotland has access to Broadband this includes some 378 remote and rural telephone exchange areas. This has significant implications for businesses and individuals in the region.</p>	Scottish Index of Multiple Deprivation (SIMD) 2004	
Tourism	<p>Visitors</p> <p>Scotland is an extremely popular tourist destination and tourism is very important to the economy especially in more remote areas. Over the past 30 years tourism in Scotland has grown by 43% but has changed in focus. UK visitors are spending fewer nights but more money reflecting a rise in short breaks. Over the long term, therefore, the growth has come primarily from overseas. Over 18 million tourists took overnight trips to Scotland in 2003. According to a Tourist Attitudes Survey:</p> <ul style="list-style-type: none"> ▪ 7 in 10 visitors to Scotland specifically visit areas in the Highlands and Islands; ▪ By far the main attraction is the landscape, countryside and scenery; ▪ Specific aspects mentioned were mountains, hills, lochs, rivers, and the nature and wildlife; and ▪ Cultural heritage is also a key attraction for one in five visitors. <p>Recent research has indicated that Scotland is tapping into the specific eco-tourism market and is increasingly attracting visitors who are environmentally aware, with a majority highlighting the country's scenery and natural environment as the main reasons for coming. A 2005 poll of 60,000 booking enquiries through the online travel agency responsibletravel.com ranked Scotland as the top European eco-destination and 9th in the world.</p>	Visit Scotland and SNH Tourist Attitudes Survey 2001; Visit Scotland Data 2003; Sustainable Tourism Partnership	Tourism is an important economic driver in the region. One of the sub-objectives within the Programme specifically seeks to maximise the economic and social benefits of tourism. Depending on the types of projects supported this has the potential to impact on aspects such as landscape, biodiversity and cultural heritage. This should be done in a way that supports and enhances these aspects of the environment, i.e. through restoration, habitat creation etc.

Environmental Management	<p>Environmental Management Systems</p> <p>The number of companies implementing environmental management systems (EMS) within the UK is growing. An EMS goes beyond minimum legal compliance and demonstrates continuing improvement in environmental performance. Invariably this directly improves economic performance. In Scotland there are:</p> <ul style="list-style-type: none"> ▪ 7 companies registered with the EUs EMAS (Eco-Management and Audit Scheme); and ▪ 208 companies registered with ISO14001. 	EMAS Register	<p>The Programme specifically looks to assist business development and support economic growth through RTD. This could be done in a way, which supports more environmentally positive practices, such as EMS's, green design, and environmental technologies. These do not have to be contrary to economic aims and can in fact provide specific economic benefits i.e. reduced energy and water consumption.</p>
	<p>Environmental Research</p> <p>Activity focussed on environmental research is growing in the region, specifically through the work of the UHI but also through independent organisations and private companies such as the Sustainable Research Development Centre (SRDC) in Forres and the European Marine Energy Centre (EMEC) in Orkney. The region has particularly abundant renewable resources and a large geographical area over which they could be exploited. This potential is well recognised and the area is now attracting considerable development and research interest.</p>	FE and HE Sector	
Inter-relationships²	<p>Climate Change</p> <p>This has the potential to impact on almost all of the other factors detailed above e.g. through:</p> <ul style="list-style-type: none"> ▪ Sea level rise; ▪ Increased precipitation and flooding; and ▪ Change in growing seasons and in species behaviour e.g. migration. 		<p>The Programme should consider the potential for inter-relationships between various environmental effects. This has been considered in as much as is possible in the SEA in the assessment matrices (section x).</p>
	<p>Renewable Energy</p> <p>The move to increase renewable energy provision has the potential to impact on landscape, water and recreation, biodiversity and cultural heritage, in particular the settings of historic features e.g.:</p> <ul style="list-style-type: none"> ▪ Tidal / offshore renewable developments in sensitive marine environments; ▪ Significant changes in landscape visual amenity; and ▪ Impacts on recreational opportunities e.g. micro-hydro and kayaking. 		

Transport and Access

Aims to improve accessibility and strategic transport in the region can significantly affect other environmental aspects. Physical infrastructure development or support for modes of transport such as the private car or air travel (in their current forms) can:

- Increase CO₂ emissions and contribute to climate change;
- Contribute to habitat loss and landscape change; and
- Impacts on water quality due to run-off.

Sectoral / Location Focus Selection criteria for support funding may give a greater weighting to factors which favour more economically vulnerable parts of the region. Broadly speaking, somewhere like Inverness would be likely to attract lower grant rates compared to more fragile areas such as the Western Isles.

Notes: 1 Water bodies are taken from the Scotland River Basin District which extends beyond the OP boundary

ANNEX G: 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 Government 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 Government 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 Government play a part in determining and contributing to Scottish Economic Development. Our approach is set out in the *Framework for Economic Development in Scotland*. 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 Scottish Government'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 under half % of the amount available under the previous 2000 to 2006 programmes.

6. Such reduction 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 Government 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 Government'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 Government 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 Government. 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 2000-2006 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 members of 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, and finally on to the EU Commission in April 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 under-represented 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 4 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 Highlands & Islands 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 Scottish Government 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 IAB 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) or 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 Government 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 revisited, 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 Government.

European Structural Funds Division
Scottish Government

ANNEX H: 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). The last column shows the links between different categories of expenditure and priorities where the expenditure is expected to take place, though this should not imply any setting of earmarking targets for individual priorities. Allocations have not been split by territorial dimension 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	Priority mapping
1	R&TD activities in research centres	8.86%	10,798,303	2
2	R&TD infrastructure and centres of competence in a specific technology	8.86%	10,798,303	2
3	Technology transfer and improvement of cooperation networks ...	2.55%	3,107,491	2
4	Assistance to R&TD, particularly in SMEs (including access to R&TD services in research centres)	3.90%	4,752,633	1
5	Advanced support services for firms and groups of firms	3.90%	4,752,633	1, 2
6	Assistance to SMEs for the promotion of environmentally-friendly products and production processes (...)	1.87%	2,281,264	1, 2
7	Investment in firms directly linked to research and innovation (...)	7.88%	9,605,267	1
8	Other investment in firms	18.68%	22,765,604	1, 2
9	Other measures to stimulate research and innovation and entrepreneurship in SMEs	3.90%	4,752,633	1
10	Telephone infrastructures (including broadband networks)	0.88%	1,069,879	2, 3
14	Services and applications for SMEs (e-commerce, education and training, networking, etc.)	6.63%	8,077,687	1, 2
15	Other measures for improving access to and efficient use of ICT by SMEs	1.95%	2,376,317	1
20	Motorways	1.12%	1,362,349	3
22	National roads	1.68%	2,047,288	3
23	Regional/local roads	1.92%	2,339,758	3
26	Multimodal transport	1.80%	2,193,523	3

30	Ports	1.92%	2,339,758	3
39	Renewable energy: wind	0.24%	292,470	3
40	Renewable energy: solar	0.24%	292,470	3
41	Renewable energy: biomass	0.24%	292,470	3
42	Renewable energy: hydroelectric, geothermal and other	0.18%	219,352	3
50	Rehabilitation of industrial sites and contaminated land	3.90%	4,752,633	1, 3
55	Promotion of natural assets	1.70%	2,071,661	2
57	Other assistance to improve tourist services	5.10%	6,213,763	2
60	Other assistance to improve cultural services	1.70%	2,071,661	2
61	Integrated projects for urban and rural regeneration	5.40%	6,579,350	3
85	Preparation, implementation, monitoring and inspection	1.50%	1,827,936	4
86	Evaluation and studies; information and communication	1.50%	1,827,936	4
	Total	100.00%	121,862,392	
	Earmarking	75.60%	92,130,406	

Form of finance table			
Code	Category	Allocation: %	Allocation: total
1	Non-repayable aid	95.00%	115,769,272
2	Aid	5.00%	6,093,120
3	Venture capital	0.00%	0
4	Other forms of finance	0.00%	0

Territorial dimension table			
Code	Category	Allocation: %	Allocation: total
0	Not applicable	100.00%	121,862,392