

# **THE IMPLEMENTATION OF THE EU STRUCTURAL FUNDS IN THE HIGHLANDS AND ISLANDS: FROM OBJECTIVE 1 TO PHASING OUT**

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## **INTRODUCTION**

The structural funds are the European Union's main policy tool for reducing disparities among regions within the European Union. Since the initial establishment of the funds, the Highlands and Islands of Scotland have received a number of programmes aimed at developing the region's economy. To date, the most significant of these came during the 1994-99 period when the Highlands and Islands was designated as an Objective 1 region, and was thus eligible to receive the maximum financial support available from the funds. The Highlands and Islands' involvement with the structural funds will change in the 2000-06 period. In 1999 it was determined that the region would not qualify for Objective 1 status in this period but instead would receive a six year phasing out programme. New structural fund regulations agreed by the Council of Ministers in June 1999 set the context for the implementation of this programme. At the same time, the creation of the Scottish Parliament and Scottish Executive will also have an impact on the programme's implementation.

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This article examines the implementation of these structural fund programmes in the Highlands and Islands. The intention is not to analyse the economic impact of the programmes, nor to examine whether the results match the established priorities. The two main objectives are first to determine the extent to which the implementation of the Objective 1 programme has complied with the principles set out in the underlying EU 1993 structural fund regulations. The particular focus here is on whether the implementation process has involved local actors as intended by the regulations' partnership principle. The second objective is to examine whether the phasing out programme will follow a similar pattern to the Objective 1 programme. This entails analysing the extent to which the regulations agreed in 1999 differ from the previous regulations. It also involves examining the impact that the establishment of the Scottish Parliament and Scottish Executive will have on the implementation of the phasing out programme, and the initial steps taken in the implementation of the programme.

The conclusions reached are that the central government, and particularly the Scottish Office, played a dominant role in the implementation of the Objective 1 programme. Nevertheless, the implementation process has broadly corresponded to the principles set out in the 1993 structural fund regulations, particularly in terms of local actors' involvement under the partnership principle. The implementation of the phasing out programme will be similar to that of the Objective 1 programme. First, the 1999 structural fund regulations are not dramatically different from the 1993 regulations. Second, although devolution will affect the implementation process, the Scottish Executive's role in the phasing out programme will be similar to that played by the Scottish Office in the Objective 1 programme. The initial decisions taken also demonstrate that the Scottish Executive will adopt a broadly similar approach to that of the Scottish Office. As a result, local actors will continue to be important in the implementation of the structural funds.

### **THE 1993 STRUCTURAL FUNDS REGULATIONS**

In establishing new structural fund regulations in July 1993 the Council of Ministers determined that the Highlands and Islands would be classified as an Objective 1 region between 1 January 1994 and 31 December 1999, with projects having until December 2001 to be completed (see Council of the European Communities 1993a). These regulations also established the framework for the implementation of the structural funds as whole, and

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therefore for the Objective 1 programme in the Highlands and Islands in this period.

Building on the 1988 reform of the structural fund regulations (see Bache 1998), the 1993 regulations stated that the delivery of the structural funds in the 1994-99 period should be based on the principles of concentration, additionality, programming, and partnership. The first of these stated that structural fund assistance should be concentrated on six priorities, with the majority of resources devoted to Objective 1 which was aimed at promoting 'the development and structural adjustment of regions whose development is lagging behind' (Council of the European Communities 1993a, p. 7).

The additionality principle stated that structural fund assistance should not 'replace public expenditure on structural or comparable expenditure undertaken by the Member State in the whole of the territory eligible under an objective' (Council of the European Communities 1993b, p. 23). The intention was to prevent a return to the situation that had existed during the early years of the structural funds whereby central governments could use the funds to reduce their own financial contribution to regional development (see Wallace 1983).

The programming principle stated that structural fund assistance should be delivered over three or six year periods on the basis of programmes setting out priorities, financial plans, monitoring procedures, and expected results (Council of the European Communities 1993b, pp. 22-4). These programmes could take two forms. They could be based on regional development plans drafted within the member state concerned. These plans would then form the basis of negotiations with the Commission leading to the establishment of community support frameworks (setting general priorities), and operational programmes (outlining specific projects). In the second form, single programming documents (SPDs) could take the place of the community support frameworks and operational programmes. As in the first instance, single programming documents were to be based on regional development plans.

The partnership principle stated that the delivery of structural fund support should occur through close consultations between the Commission, the central government concerned, and regional and local bodies. This partnership was intended to operate particularly during the negotiations on the community support frameworks or single programming documents, and subsequently during the implementation of these plans. The partnership principle was thus intended to allow for some decentralisation of decision-

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making through the integration of regional and local actors into the policy-making process as part of a broader Commission goal of including such actors in EU policy-making (Hooghe and Marks 1996; Tömmel 1998). In addition, involving regional and local actors in the structural funds would allow for the co-ordination of regional development policies across EU, national, regional and local levels.

The intention of the partnership principle was to include actors below member state level in the implementation of the structural funds. The structural fund regulations, however, did not ensure that this would occur in every instance. Instead the regulations made it clear that regional and local actors would be included 'within the framework of each Member State's national rules and current practices', and that such actors as were included would be selected by the central governments concerned (Council of the European Communities 1993a, p. 8). The application of the partnership principle would therefore depend upon the different central governments' willingness to apply the principle. As a result, there existed the possibility for variation among member states, and even within member states, in the extent to which regional and local actors were involved in the implementation of the structural funds.

### **THE HIGHLANDS AND ISLANDS OBJECTIVE 1 PROGRAMME**

The principles set out in the 1993 structural fund regulations have inevitably shaped the implementation of the Highlands and Islands Objective 1 programme. Yet, as in other member states, the full application of these principles cannot be assumed but instead requires detailed examination (see Bache 1999). A key issue in particular is the extent to which the implementation of the Objective 1 programme has involved a genuine partnership of local, central government, and European actors.

The initial stage of the implementation process involved establishing the Objective 1 programme's priorities. In the case of the Highlands and Islands, these were set in a single programming document based on a regional development plan. The drafting of the regional development plan was primarily the work of British actors, with the Scottish Office, along with other central government departments, playing the major role. Local actors were, however, also involved under the partnership principle, and the plan was drafted in a series of meetings chaired by the Scottish Office. While the range of local actors involved was broadly representative of those present in the region, there were limits imposed by the central government. The Scottish

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Council for Voluntary Organisations, for example, had to lobby to secure a place in the negotiations. The Conservative government particularly opposed trade union participation, and as a result economic and social actors were excluded, just as they were later excluded from the institutional structure. As made clear in the structural fund regulations, the UK government faced no compulsion to involve such actors, in spite of the Commission's efforts to include them.

Central government therefore controlled local participation in the drafting of the regional development plan, but nevertheless adopted a generally inclusive approach. The Scottish Office claimed to have consulted 'with all relevant agencies and organisations' (Scottish Office 1993a, p.1), and this view was broadly supported by local actors themselves. One local participant, for example, stated that the incorporation of local views into the plan was 'no great problem' (interview with author 1996). Moreover, there was a reasonably high level of agreement among the actors over the content of the final document. The plan incorporated the views of both local and central government actors and, as such, was a compromise. In the words of one local participant: 'we all ended up with a draft that none of us would have prepared ourselves' (MacAskill 1996). The partnership principle therefore was important in the creation of the regional development plan submitted by the UK government to the Commission on 3 November 1993.

This plan formed the basis of negotiations with the Commission aimed at adopting a single programming document. These negotiations involved a larger range of actors than had the earlier regional development plan discussions, with participants coming from the Commission, the Scottish Office, the Department of Trade and Industry and other central government departments, the UK's permanent representation to the European Union (UKREP), and local bodies. As a result the negotiations were complex and lengthy. The Objective 1 programme had been expected to start on 1 January 1994 but the single programming document was only finally agreed on 29 July 1994.

As with the regional development plan, local and regional actors from the Highlands and Islands were not only present during the negotiations but helped to shape their course. They did not, however, dominate these negotiations. In their recollection of the meetings, some local participants argued that their views were occasionally sidelined, with the negotiations dominated by arguments between the central government and the Commission (interviews with author). It is certainly the case that the Commission approached the negotiations with its own priorities, and that

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these sometimes clashed with the views of local actors. The Commission, for example, sought to reduce the plan's emphasis on infrastructure projects because, in its view, spending on such projects was the central government's responsibility (see Ross 1994a). Instead, the Commission advocated tourism and training measures. Thus, in 1994 some of the priorities advocated by the Commission created considerable frustration within the region because the local actors felt they gave insufficient weight to local views. The assistant chief executive of Highland Regional Council, for example, stated that:

The European Commission should give greater recognition during the negotiations on the form and content of EU funded programmes to the knowledge and experience of partners who have been involved in economic and social development in the Highlands and Islands for many decades.

(Claridge 1995, p.15)

The chief executive of the development body, Highlands and Islands Enterprise, expressed similar sentiments when he stated that the Commission must acknowledge the local actors' experience of designing and delivering economic and social development programmes 'instead of sitting on our proposals and imposing their own methods and views of development' (**Inverness Courier** 1994a, p. 4). These views suggest that the local actors felt themselves to have been, to some extent, marginalised during the negotiations. It also suggests that, while the Commission was a firm advocate of local actors' inclusion in the negotiations, this did not guarantee that the Commission and local actors were always in agreement. In this case, the local actors already had a reasonably close relationship with the Scottish Office and this influenced the single programming document negotiations (see Bache, George and Rhodes 1996, pp. 304-5).

The single programming document was finally agreed upon in July 1994 (Commission 1994). In the view of one UK government official, the dominant feeling was one of relief: 'I am not sure that anyone was hugely delighted with the final result but everyone was relieved that the negotiations were finished' (interview with author 1996). As with the regional development plan, each of the participants influenced the final document. The Commission's priorities, for example, were evident in the emphasis given to tourism. The inclusion of quantified project targets and financial tables reflected the interests of the UK government expressed during the discussions over the 1993 reform of the structural fund regulations (see Pollack 1995). Similarly the SPD gave greater emphasis to investment in infrastructure projects than had been desired by the Commission but which

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had been supported by both the UK government and local actors (**Inverness Courier** 1994b, p.2). Finally, the SPD acknowledged the principle of targeting resources on disadvantaged areas within the Highlands and Islands (Commission 1994, pp. 23-4), a principle that a number of local actors supported (see **Inverness Courier** 1994c, p. 7; Ross 1993, p. 2). The single programming document therefore resulted from a bargaining process, and would not have assumed the final shape that it did without the input from European, central government, and local actors. The partnership principle was therefore an important factor at this stage of the implementation process.

The second implementation phase has revolved around the institutional structure established to select projects eligible for structural fund support and monitor the results of these projects until December 2001. The institutional structure was established by the single programming document and revised in 1996. Within the revised structure, the main bodies are the programme management executive and the programme monitoring committee, supported by three smaller advisory groups and 13 area committees. The programme management executive is an independent body based in Inverness. Its main roles are to assist project applicants with the preparation of bids; to provide an initial assessment of applications (although it has no involvement in the final selection of projects); and to monitor projects in progress. The programme monitoring committee's role is to take the final decisions on project proposals, and to examine the progress of projects towards the overall targets set in the single programming document.

Until the establishment of the Scottish Parliament and Scottish Executive, the UK central government, in the shape of the Scottish Office, enjoyed a prominent position within this institutional structure. In the first place, the single programming document stated that the Scottish Office was the Objective 1 programme's implementing authority (Commission 1994, p. 125). As such, the Scottish Office was initially ultimately responsible for the programme. In its role as implementing authority, Scottish Office officials chaired all meetings of the programme monitoring committee and the advisory groups. As noted by some participants, this allowed the central government to exert particular influence over project selection (interviews with author). Secondly, under the terms of the partnership principle, the Scottish Office was responsible for selecting the local actors that would participate in the institutional structure. Thirdly, as examined below, the central government has been able to exert considerable control over the financial operation of the programme. The central government, reflecting its dominant position within the UK political system, has thus occupied an

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important position within the Objective 1 programme's implementation structure.

While noting the position occupied by the Scottish Office, it is nevertheless also the case that the European Commission and local actors had (and continue to have), important roles within the implementation structure. Commission officials attend all meetings of the programme monitoring committee. Their main role is to ensure that the programme complies with the project and financial targets set in the single programme document. To this end, the Commission receives annual reports on the programme's progress and must also agree to any modifications to the programme (Commission 1994, pp. 131-2). The Commission also plays a significant role in the financial monitoring of the programme. The 1993 regulations, for example, stated that 'Commission officials or servants may carry out on-the-spot checks, including sample checks, in respect of operations financed by the structural funds and management and control systems' (Council of the European Communities 1993b, pp. 27-8). The Commission may also suspend assistance in cases where financial irregularities are found (*ibid*, p.28).

Local actors, on the other hand, form the majority on the implementing committees and groups, giving them an opportunity to influence the decisions made. It does not however guarantee such influence. Local actors themselves provide a mixed interpretation of their role within the implementation structure. At one level, some local actors have expressed dissatisfaction with the results of the project selection process, although this has mainly stemmed from the competition for funding. The local actors are, at least to some extent, bidding against each other for Objective 1 money, and this, in the words of the director of the programme management executive, has created 'tensions, there's no doubt about that. Everyone is going into it for the money they are going to get out' (quoted in Ross 1994b, p. 7).

On a more general level, however, there exists among the local actors a feeling that the partnership provisions are reasonably effective. In the view of one participant: 'In any partnership of any size there are bound to be stresses and strains. But looked at overall, objectively, the partnership works well' (interview with author 1997). One frequently cited reason for this satisfaction is the existence of the independent programme management executive (see Bache 1999; Danson et al 1999). The local actors see this initiative as reducing central government control over the programme and thus allowing for 'a more genuine partnership' (see Bache, George and Rhodes 1996, p. 306). Nevertheless, the local actors acknowledge that the roles played by the central government and the Commission limit their role in the

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implementation process. As will be examined below, local actors are particularly critical of the central government's financial influence over the Objective 1 programme. They are also to some extent critical of the Commission. In the view of one actor: 'The essence of the thing should be to respond to [local] need and changing perceptions. ... It seems to me that we are too hamstrung by rules from Brussels' (interview with author 1996). There exists, therefore, some degree of local frustration at the operation of the Objective 1 programme. Nevertheless, the general conclusion is that the partnership principle is applied reasonably well in the Highlands and Islands, and that the implementation of the programme involves European, central government, and local actors. It is not the case that the local actors are equal participants in this partnership, but they at least have had the opportunity to influence the development of the Objective 1 programme.

The 1999 establishment of the Scottish Parliament and Scottish Executive has, to some extent, changed the implementation of the Objective 1 programme and thus the functioning of the partnership principle. With devolution, the Scottish Executive assumed responsibility for the Highlands and Islands Objective 1 programme until the final completion of all projects in December 2001 (see Scottish Executive 1999a, para. 10). The Scottish Parliament also has a role in the implementation process. In particular, the parliament's European, Finance and Rural Affairs committees are involved in a monitoring capacity. The consequences of these changes are examined in more detail below as they will have their greatest impact during the implementation of the phasing out programme. The impact on the Objective 1 programme is limited because the programme is in its final stages, with the majority of the key decisions already having been taken. The impact is also limited because the 'Scottish Executive will take the responsibility which was previously for the Scottish Office of implementing all Programmes operating in Scotland' (ibid, para. 12). The Scottish Executive will thus, for the remainder of the Objective 1 programme, perform the same basic roles as performed by the Scottish Office. In addition, the UK central government departments will still be involved in the running of the programme. The Department of Trade and Industry will, for example, have 'observer status on Scottish Monitoring Committees and can make points under technical or policy competence' (ibid, para. 13). Devolution is, thus, not likely to affect dramatically the Objective 1 programme and therefore the application of the partnership principle during the remainder of the programme.

While local actors, and the European Commission, have been generally satisfied with the application of the partnership principle, they are less satisfied that the additionality principle has been as well applied in the

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Highlands and Islands. Under the terms of this principle the Objective 1 programme was expected to provide at least 311 million ECU (1994 prices) of additional development funding in the region. In the case of the United Kingdom as a whole, long-standing Commission and local government complaints are that additionality has been difficult to verify, and that the central government has used the structural funds to replace national expenditure (Commission 1993, pp. 74-5). This was the cause of the 1990-92 clash between the Commission and the UK government over RECHAR funding, a community initiative aimed at providing assistance to coal mining areas (see Bache 1998; McAleavey 1993). As a result of changes made following this confrontation, the UK government referred to its 'undertaking to the European Commission that all payments of ERDF grants will be transparent and confer additional spending power on grant recipients' (Scottish Office 1993b, p. 41).

It is not clear, however, that central government changes have resulted in local actors having additional resources to spend. In the view of one analyst, the central government has simply reduced local governments' capital expenditure allowances in line with the amounts provided by the structural funds (McAleavey 1995). It is certainly the view of some local actors that the Objective 1 programme has not brought additional resources to the Highlands and Islands. One local government official expressed this opinion:

We would have envisaged that at least the European money would have been additional. ... In all honesty, I don't think the matching funds have been additional. ... In fact, budgets having become smaller, you have now moved into not just the matching funds not being additional but the European money, or at least part of the European money, not being additional.

(interview with author 1996)

This concern about the application of the additionality principle continued even following the 1997 election of the Labour government. The election of this central government was expected to lead to a more harmonious working relationship with local government than had existed under the previous Conservative governments (Lowndes 1999). Yet the question of structural fund additionality has remained a point of contention between central and local government (see Highland Council 1999). This controversy has also been evident in recent Scottish National Party-led arguments that structural fund programmes in Scotland do not increase the levels of overall public expenditure in Scotland (see Ritche 2000a; 2000b).

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Although it is not possible here to conclude definitively whether the Highlands and Islands Objective 1 programme has provided additional resources to the region, it is at least possible to argue that an element of doubt exists. The Commission has pointed to this in its reports on the implementation of the structural funds (Commission 1995, p. 17). Verification of additionality is thus difficult, and this has created controversy among the participating actors.

### **THE 1999 REFORM OF THE STRUCTURAL FUND REGULATIONS**

In February 1999 the Berlin European Council determined that the Highlands and Islands would no longer qualify for Objective 1 status at the end of the 1994-99 programming period. The Council also concluded, however, that: 'In view of the particular structural problems resulting from low population density matched with the high degree of poverty, the Highlands and Islands of Scotland will receive a special phasing out programme totalling 300 million euros' (European Council 1999, p. 9). This is a six year programme, and its implementation will be based on the reformed structural fund regulations agreed in June 1999. It will also be affected by the creation of the Scottish Parliament and Scottish Executive. It is as yet too early to make definitive judgements about the manner in which this phasing out programme will be implemented in the Highlands and Islands, and thus about the differences between it and the Objective 1 programme. It is, however, possible to draw some initial conclusions based on the underlying structural fund regulations and the Scottish Executive's initial preparations for the implementation of the phasing out programme.

The 1999 structural fund regulations maintain the broad principles of concentration, partnership, programming and additionality that had been included in the 1993 regulations. Each, however, is to some extent modified based on Commission proposals to increase the concentration of structural fund assistance, to simplify the administrative structures, and to improve the financial monitoring of the funds (Commission 1997; 1998). To these ends, the regulations passed by the Council of Ministers in June 1999 introduce a number of changes (see Council of the European Union 1999). First, the regulations increase the structural funds' concentration by reducing the number of priority objectives from the seven that existed in the 1994-99 period to three. Objective 1 remains largely unchanged, although there was a commitment to apply the qualifying criteria more strictly. The new Objective 2 is aimed at supporting urban, rural and fishing areas facing economic and

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social difficulties (ibid, p. 8). Objective 3 applies throughout the European Union, with the exception of Objective 1 regions, and is aimed at modernising systems of education, training and employment (ibid, p. 10). The major impact on the Highlands and Islands resulting from these changes is, as noted above, that under a strict application of the qualifying criteria, the region no longer qualifies for Objective 1 status. The phasing out programme, however, limits the financial implication of this development as it provides approximately the same amount of funds as the Objective 1 programme.

Under the terms of the 1999 regulations, the implementation of the structural funds should continue to involve a partnership of European, central government, regional and local actors. The regulations seek to extend the scope of the partnerships by including organisations taking account of the 'need to promote equality between men and women and sustainable development through the integration of environmental protection and improvement requirements' (ibid, p. 12). The implementation process will also continue to be based on multi-annual programmes (community support frameworks and operational programmes or single programming documents), that set priorities, financial tables, and monitoring arrangements. The 1999 regulations seek to simplify this process by providing increased clarification of the roles to be played by the different actors throughout the process. To this end, it is indicated that the Commission will play a larger role in setting overall programme priorities, while the central governments and local actors will have a larger role in selecting projects and monitoring their progress. The 1999 regulations also state that for each programme the central governments must designate a single managing authority that will 'be responsible for the efficiency and correctness of management and implementation' (ibid, p. 28). This involves such tasks as gathering statistics and financial information, drawing up annual reports on the programme, and helping to organise the mid-term review (ibid, pp. 28-9).

Finally, the 1999 regulations continue to state that the structural funds should provide additional resources, and 'may not replace public or other equivalent structural expenditure by the member state' (ibid, p. 14). In order to achieve this, the Commission and the central government concerned determine the levels of existing expenditure that must be maintained throughout the 2000-06 programming period. This is done at two geographic levels: first, for a member state's Objective 1 regions, including regions (such as the Highlands and Islands) in transition from Objective 1 status; and second, for the member state as a whole. On these bases, the additionality of the structural

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fund programmes will be determined at the beginning, the mid-term, and towards the end of the programming period.

The 1999 regulations therefore introduce a number of changes to the structural funds' implementing procedures. A second change for the Highlands and Islands will result from the establishment of the Scottish Parliament and Scottish Executive. In devolving power to these two new bodies, Schedule 5 of the 1998 Scotland Act clearly states that responsibility for issues pertaining to the European Union is reserved to the UK government (see Mitchell 1998; Scottish Office 1997). As such primary responsibility for the structural funds lies with the UK government. Nevertheless, the Scotland Act allowed for executive devolution by establishing that the Scottish Executive would be responsible for policy implementation in some areas where legislative competence is not held by the Scottish Parliament. The EU structural funds are one such area (see House of Commons 1999, p. 12).

Neither the Scottish Parliament nor Scottish Executive is directly responsible for participating in EU decisions relating to the structural funds. While they were included in discussions, they did not, for example, determine the UK negotiating line for the 1999 reform of the structural fund regulations. The UK government is also primarily responsible for negotiating over the designation of regions eligible to receive structural fund support (Scottish Executive 1999a, para. 6; Scottish Executive 1999b). The Scottish Executive, however, has primary responsibility for the implementation of structural fund programmes in Scotland once the eligible regions have been established (Scottish Executive 1999a, para. 11). The Scottish Executive is therefore responsible for the implementation of the Highlands and Islands phasing out programme.

This is a change from the situation that existed for the majority of the Objective 1 programme. The devolved government and administration, the Scottish Executive, now performs the majority of the functions during the phasing out programme that the UK government department, the Scottish Office, performed during the Objective 1 programme. This is evident, for example, with respect to the partnership principle, as it is now the Scottish Executive that selects the regional and local actors that will participate in the Highlands and Islands phasing out programme. The Scottish Executive will also be central to the actual implementation of the programme. It will have a major role in the preparation of regional development plans and in the negotiation of single programming documents (Scottish Executive 1999a, para. 11). Scottish Executive officials will chair meetings of the new

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programme monitoring committee and will be central participants in the preparation of the annual reports and the mid-term and final reports. The Scottish Executive will also 'take responsibility in the first instance for the financial control of assistance' (Council of the European Union 1999, p. 31), which requires taking responsibility for investigating financial irregularities and making necessary corrections (ibid, pp. 32-3). A further new development is the call for the Scottish Parliament's European Committee to be involved in the monitoring of the Highlands and Islands phasing out programme, along with all the Scottish programmes (see Scottish Executive 2000, para. 19). This potentially adds a new Scotland-wide dimension to the implementation of the Highlands and Islands phasing out programme.

The new structural fund regulations along with the establishment of the Scottish Parliament and Scottish Executive will therefore influence the implementation of the Highlands and Islands phasing out programme. Overall, however, the implementation of this programme is likely to be broadly similar to the implementation of the Objective 1 programme. The Scottish Executive, for example, will exercise broadly the same powers with respect to the phasing out programme as exercised by the Scottish Office with respect to the Objective 1 programme. Thus, the involvement of local actors in the implementation process will depend on the Scottish Executive's application of the partnership principle. As in 1993, the 1999 structural fund regulations state that the central governments (in this case the Scottish Executive) are responsible for selecting the local partners that will participate 'within the framework of national rules and current practices' (Council of the European Union 1999, p. 11). As with the Scottish Office in 1993, therefore, the Scottish Executive faces no compulsion to include the local actors referred to in the regulations.

There are, however, initial indications that the application of the partnership principle in the Highlands and Islands phasing out programme will be similar to the Objective 1 programme. First, the Scottish Executive has asserted its commitment to building an inclusive working relationship with local governments and other local actors. Thus, the preparation of the regional development plan for the phasing out programme, and the initial single programming document negotiations, have included the same broad range of local actors that participated in the Objective 1 programme (see Highlands and Islands Partnership Programme 1999). In addition, the then Scottish Executive Minister for Finance, Jack McConnell, indicated that the local participants within the implementation institutional structure will be greater than was the case in the 1994-99 period: 'It is my intention to include elected members of local authorities, trade unionists and business representatives on

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the replacements for the old monitoring committees' (Scottish Parliament 1999, col. 210).

Second, the same range of UK government actors will be involved with the phasing out programme as were involved with the Objective 1 programme. Officials from the Department of Trade and Industry (DTI), for example, have been involved in the preparation of the new regional development plan and in the negotiations over the single programming document in order 'to ensure consistent and co-ordinated plans across the UK' (Scottish Executive 1999a, para. 11). DTI officials will also have observer status on the new programme monitoring committee once it is established (*ibid*, para. 12).

Finally, it is also the case that the European Commission will play a significant part in the implementation of the phasing out programme. While broadly stating that the Commission will play a smaller part in the actual implementation process, the 1999 structural fund regulations by no means eliminate the Commission's role. The Commission, for example, will be active in setting the priorities of the new single programming document for the Highlands and Islands. A representative of the Commission will participate in the work of the new programme monitoring committee (Council of the European Union 1999, p. 29). The Commission will also review the annual implementation reports (*ibid*, p. 29), and can request that the Scottish Executive carry out on-the-spot financial checks or carry out such checks itself (*ibid*, p. 32). In the event that the Commission finds uncorrected financial irregularities in the programme, it has the power to suspend part or all of particular payments (*ibid*, pp. 32-3).

As with the Objective 1 programme, therefore, the implementation of the phasing out programme will depend on a partnership among European Commission, central government, and local actors. In this case the Scottish Executive will enjoy a prominent position within this partnership, but the underlying structural fund regulations will continue to allow local actors and the European Commission to play important roles.

The 1999 structural fund regulations and the creation of the Scottish Parliament and Scottish Executive will not lead to dramatic changes in the actors involved with the implementation of the phasing out programme. Nor will they lead to radical changes in the institutional structure established to select projects eligible for structural fund support and monitor the results of these projects. The major potential for change occurred when the Scottish Executive established a Steering Committee in November 1999 to evaluate the administration of the structural funds in Scotland, and particularly the

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work of the independent programme management executives. This committee issued its report in March 2000, but rather than advocating radical changes, it called for the broad maintenance of the current system:

The overwhelming evidence from those we spoke to and from written respondees to the consultation process was that the Programme Management Executives do add value to the process, and that for this new programme round PMEs should be maintained in something like their current model.

(Scottish Executive 2000, para .10)

The committee continued by arguing that: 'To break up the current structure at this stage could ... run the risk of undermining existing relationships and as a consequence detracting from the effectiveness of programmes' (ibid, para. 12). The committee did suggest some limited changes, such as a degree of simplification in the project application process, and greater emphasis on overall strategy in the implementation of the structural fund programmes. On the whole, however, the likely consequence of this review for the Highlands and Islands is that the phasing out programme's institutional structure will be largely similar to that of the Objective 1 programme. It will continue to be based around an independent programme management executive and a programme monitoring committee supported by advisory groups (see ibid, para.25).

A final similarity between the phasing out programme and the Objective 1 programme is that the same type of issues are likely to be important during the implementation process. One of these will undoubtedly be the application of the additionality principle. The 1999 regulations continue to stress the importance of this principle, but introduce only limited changes in the way that additionality is verified. As a result, this will at the very least remain a controversial issue throughout the period of the phasing out programme, particularly as the Labour government and Scottish Executive have not indicated that they will change the financial system underlying the application of the structural funds in the UK. Critics of the Scottish Executive and the Labour UK government will likely continue to claim that the Highlands and Islands phasing out programme will not lead to an increase in the total level of public expenditure in the region.

## **CONCLUSION**

Throughout the 1990s the structural funds have been an important component of economic development in the Highlands and Islands. This will continue in the first decade of the new century, as the final Objective 1 projects are completed and as the implementation of the phasing out programme begins. Continuity will also be evident in the manner in which the phasing out programme is implemented. Implementation of the Objective 1 programme was based upon the 1993 structural fund regulations, with the majority of the programme being given effect prior to the establishment of the Scottish Parliament. The UK central government, in the shape of the Scottish Office, enjoyed a dominant position in setting the priorities of the Objective 1 programme and within the institutional structure established to select projects and monitor results. In spite of the Scottish Office's central position, and in spite of controversy over the additionality principle, the implementation of the Objective 1 programme has corresponded broadly to the 1993 regulations. As a result, regional and local actors and the European Commission, in accordance with the partnership principle, have been significant actors throughout the implementation process.

In close association with the European Council's decision to provide the Highlands and Islands with a phasing out programme in the 2000-06 period, the Council of Ministers passed new structural fund regulations in 1999. This coincided with the Labour government's devolution measures, which established the Scottish Parliament and the Scottish Executive. These developments are important for the Highlands and Islands as they will affect the implementation of the phasing out programme. Nevertheless, there are reasons to expect a considerable degree of continuity between the Objective 1 programme and the phasing out programme. Rather than introducing radical change, the 1999 structural fund regulations build on the experience of the 1993 regulations. In addition, the Scottish Executive has thus far demonstrated a commitment to continue the working practices established by the Scottish Office in relation to the structural funds. The implementation of the phasing out programme is thus likely to involve a partnership of European, Scottish Executive, UK government, and local actors, working within a similar institutional structure to that which existed during the Objective 1 programme. The implementation of the phasing out programme will build on the experience of the Objective 1 programme.

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