ARGYLL AND BUTE COUNCIL **FULL COUNCIL MEETING**

DEVELOPMENT AND INFRASTRUCTURE SERVICES **26th April 2018**

ARGYLL AND BUTE COUNCIL RESPONSE TO THE INQUIRY INTO EUROPEAN STRUCTURAL AND INVESTMENT FUNDS

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide the members of Argyll and Bute Council with the officer response to the current 'Inquiry into European Structural and Investment Funds' issued by the Scottish Parliament Economy, Jobs and Fair Work Committee.

1.2 The Scottish Parliament Economy, Jobs and Fair Work Committee has agreed the following remit:*" To understand how European Structural and Investment Funds (ESIF) are currently used to support economic development in Scotland, at both a regional and local level. This will help inform the committee's views on, and develop ideas for, what should replace ESIF once the UK exits the European Union."*

1.3 A summary of the key issues is presented in the paper and the detailed responses to each theme and the associated questions posed by this inquiry are outlined in **Appendix A**.

1.4 Members are asked to:

- Note that this paper was considered and commentary provided for inclusion in the inquiry response by members of the Industry and Regional Development Sounding at their meeting on the 26th March 2018.

- Approve the response to the Scottish Parliament Economy, Jobs and Fair Work Committee outlined in full in **Appendix A**, which was submitted ahead of the deadline of 13th April 2018 subject to Argyll and Bute Council approval.

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2.0 INTRODUCTION

2.1 The purpose of this report is to provide the members of Argyll and Bute Council with the officer response to the current 'Inquiry into European Structural and Investment Funds' issued by the Scottish Parliament Economy, Jobs and Fair Work Committee.

3.0 RECOMMENDATIONS

3.1 Members are asked to:

- Note that this paper was considered and commentary provided for inclusion in the inquiry response by members of the Industry and Regional Development Sounding at their meeting on the 26th March 2018.

- Approve the response to the Scottish Parliament Economy, Jobs and Fair Work Committee outlined in full in **Appendix A**, which was submitted ahead of the deadline of 13th April 2018 subject to Argyll and Bute Council approval.

4.0 DETAIL

4.1 On the 15th February 2018, the Scottish Parliament Economy, Jobs and Fair Work Committee issued a general call for views on the current European Structural and Investment Funds (ESIF). The deadline for submission to the committee is 13th April 2018.

4.2 ESIF currently helps to fund a number of economic development programmes in Scotland, supporting public bodies such as Scottish Enterprise and Highlands and Islands Enterprise, the Funding Council, Skills Development Scotland, local authorities and some of the work of the Scottish Government delivers itself for a wide range of activities, including skills and training programmes, research and development, support to business and the development of infrastructure.

4.3 The committee has agreed the following remit:*" To understand how ESIF are currently used to support economic development in Scotland, at both a regional and local level. This will help inform the committee's views on, and develop ideas for, what should replace ESIF once the UK exits the European Union."*

4.4 To achieve the agreed remit the committee is seeking views and experiences from as many individuals, businesses and organisations as possible aligned to the themes and questions noted in **Table 1** below.

Table 1: Inquiry into ESIF – Themes and Questions
Current spending priorities and approval processes:
Bearing in mind that Structural Funds are governed by EU rules and regulations: 1. How the Scottish Government identified and agreed spending priorities for its current ESIF allocations. 2. The processes the Scottish Government went through with the European Commission to gain approval for its ESIF plans. 3. The involvement of SG agencies, local authorities and the third sector at this stage of the process.
Current spending:
4. How the differing needs of Scotland's regions are accounted for in the current range of ESIF programmes. 5. How the 2014-2020 programme funding is being spent, which areas have benefitted and any issues with these commitments or processes. 6. Understanding current accountability and reporting issues. 7. How current and previous programmes are evaluated and any suggested improvements to the evaluation process.
Future programmes:
8. How any future replacement of ESIFs could be used to improve employment, infrastructure and productivity in Scotland's regions? 9. Which level of government is best placed to decide how future funding is allocated and what accountability processes should be in place? 10. What are the potential opportunities and risks presented by any replacement fund or programme for ESIFs?

4.5 A summary of the key issues under each of the themes is presented below and the detailed responses to each theme and associated questions are outlined in **Appendix A**. In addition, as a member of the West of Scotland European Forum (WOSEF), Argyll and Bute Council has been working closely with the forum, and through WOSEF, with the Industrial Communities Alliance (ICA). The council's response includes specific issues for Argyll and Bute, but also refers to and under many questions duplicates the response from WOSEF. The response already submitted by WOSEF is presented in **Appendix B**.

Current Spending Priorities and Approval Processes

4.6 Overall, the spending and approval processes associated with the current ESIF programmes were set in the context of extremely challenging timescales and were very piecemeal in approach, particularly with regard to budget allocations.

4.7 There was considerable degree of dialogue between the Scottish Government and stakeholders. However it was not always clear how this activity was being co-ordinated by the Scottish Government or whether a coherent plan was followed. At the outset of these programmes, setting up such a mechanism would have improved the (two-way) flow of communication, improved the quality of the programme preparation process and enhanced stakeholder 'buy in' to the programmes.

Current Spending

4.8 Argyll and Bute Council officers are of the view that the current range of ESIF programmes has not fairly accounted for the differing needs of the Argyll and Bute area, in terms of understanding the complex geography which includes 23 inhabited islands and various remote peninsulas. The Managing Authority failed to account for the higher cost per participant of service delivery (including ferry costs and overnight stays) across a dispersed geography covering rural, remote rural and island communities. This was a significant factor for Argyll and Bute Council not being able to take up the 'Enhanced Employability Pipeline' intervention supported by the European Social Fund (ESF).

4.9 Due to issues of scale, Argyll and Bute Council was effectively excluded from several ERDF programmes such as the Green Infrastructure Fund and the Low Carbon Travel and Transport Fund.

4.10 For this current programming period, the Council's Business Gateway Team was eligible to undertake one ERDF funded programme as the Lead Partner i.e. the Business Gateway Local Growth Accelerator Programme (LGAP). This has benefited the micro, small and SME business community throughout Argyll and Bute through levering in £272k of ERDF monies (total cost circa £544k) to support workshops, specialist advice and funding. However, there was a significant delay in being in receipt of appropriate guidance to deliver this programme which in turn has resulted in a delay in the claims process.

4.11 Argyll and Bute Council has also been in receipt of ESIF monies, but not as the Lead Partner organisation. The Rothesay Pavilion has secured £1,055,602 from ERDF and Money Skills Argyll has been awarded £3.75m from ESF/Big Lottery.

4.12 Argyll and Bute Council is a member of the Highlands and Islands Territorial Committee (HITC) and is aware that the purpose of this committee is to monitor accountability and report issues. Argyll and Bute Council welcomed this opportunity and believed that it was established for the right purpose, but in reality it has been an ineffective reporting mechanism. HITC is led by the Managing Authority and is structured in a way that there is a one-way stream of information down to members. There is little opportunity to present and discuss operational issues.

4.13 As noted in the ESIF Regulations, the evaluation requirements for ESIF programmes are the responsibility of the Scottish Government as the Managing Authority. The recurrent problem with evaluations is that very often the results of these exercises are only available long after the optimal time for implementing many of the lessons learnt has passed.

Future Programmes

4.14 The underlying principles for any future funding, such as from the UK Shared Prosperity Fund to replace ESIF monies, are as follows:

- Set the budget for the new fund/funds at a level, mirroring the current policy principles with regard to the allocation of European funding, that not only compensates for the loss of EU funding (£1.5bn a year) but also provides additional resources to match the scale of the challenge/opportunities;

- Allocate the new fund/funds in fair and transparent ways that give priority to the development needs of local economies, such as Argyll and Bute. A fair allocation of funding should assist in reducing economic disparities rather than widening the gaps in economic performance with funding support focused disproportionately in areas that are already performing strongly;

- Reform the rules on financial support to businesses to enable the delivery of more effective support in the places that need it most. This principle aligns with the one above in terms of a fair allocation for areas of need and will require more detailed consideration of what constitutes competition policy, such as State Aid, going forward;

- Exploit the opportunity provided by this major revision of regional policy to align a wider range of public spending with the priorities of **local and regional economic and social development**;

- Secure continuity of funding over a sustained period rather than a series of disconnected, time limited and small scale initiatives (taking geography into consideration);

- Funding allocations to be driven by the challenges to longer term sustainable competitiveness rather than chasing short term opportunities;

- Enable intervention at the right spatial scale – **geography does matter**. In this context the scope for linking this policy to the review of the Enterprise and Skills agencies and the various City/Growth Deal initiatives should be explored; and

- Ensure future processes are less bureaucratic, easy to understand and transparent with greater clarity on the availability of match funding.

4.15 Argyll and Bute Council officers are of the view that the structure of any the new fund/funds, such as the Shared Prosperity Fund, should deliver support **more efficiently**, **more flexibly** and with **more local authority control**, with limited top-down management. The allocation of funding should adopt a flexible approach to determine the correct mix of aid to businesses, employability support and investment in economic/social infrastructure, based on local needs (principle of subsidiarity) with decisions made and managed at the local level.

4.16 The key opportunities for Argyll and Bute at present with regard to any replacement fund or funds are as follows:

- A chance to have a fundamental rethink of the nature and scope of regional economic/social policy in the UK and Scotland; EU policies in many respects have acted as a proxy for a UK regional policy;

- Significant savings in the administration and monitoring of the funds. For example, in relation to the volume of documentation required and the period of time that these records must be retained; and

- Support for a bespoke mixture of people, business and place based activities required to unlock regional development potential and deliver inclusive growth rather than have to adhere to arbitrary allocations for a relatively narrow and prescriptive range of activities.

4.17 The main risks for Argyll and Bute at present with regard to a replacement fund/funds are as follows:

- No detailed consideration is given by the UK Government to the devolved and local government level on the issue and focus of regional policy (economic and social) and the challenges of the varied needs of the different sectors across distinct geographical locations within regions, such as Argyll and Bute.

- Less external funding Argyll and Bute wide to address key economic and social challenges facing our communities in order to reach their full potential.
  In terms of demographics, the National Records of Scotland data for Argyll and Bute highlights that between 1996 and 2016, the 25 to 44 age group saw the largest percentage decrease (-31.4%). The 65 to 74 age group saw the largest percentage increase (+40.1%). Unless addressed, this trend is set to continue which will put further pressure on the social care sector with an increase client base and less people to deliver the required care.

- The UK Government and the Scottish Government does not give local government/Argyll and Bute Council the opportunity to put forward a collective and clear proposition with regard to future external funding requirements. This could result in a high risk that Argyll and Bute may miss out on receiving an appropriate and fair apportionment of the UK Shared Prosperity Fund or other replacement funds.
  It is so important that a clear proposition is made in order to capitalise on the continued opportunities and competitive advantage for regions such as Argyll and Bute. For example, as noted in Scottish Government's latest Annual Business Survey, 2015 (data two years in arrears) the Argyll and Bute tourism sector had a GVA of £88.3 million and that for food and drink, £91.9 million.

Furthermore, around 24% of Argyll and Bute is classed as a woodland area, approximately 12% of the woodland coverage for Scotland. As outlined in the Argyll and Bute Woodland and Forestry Strategy, 2011, the direct Gross Value Added (GVA) of timber for Argyll and Bute was approximately £58 million.

4.18 If these opportunities are not realised and the risks not addressed, this will have an impact on the longer term growth of the Argyll and Bute, Scottish and UK economies.

5.0 CONCLUSION

5.1 It was important that Argyll and Bute Council provided a local response to this current inquiry as well as aligning to a collective response made by WOSEF, of which the council is a member, and that of organisations such as the ICA.

5.2 Overall, one of the key issues for Argyll and Bute with regard to any replacement funding is to exploit the opportunity provided by this major revision of regional policy to align a wider range of public spending with the priority of **local and regional economic and social development**.

6.0 IMPLICATIONS

6.1	Policy	Local Outcomes Improvement Plan, where the vision is that Argyll and Bute's economic success in built on a growing population.
6.2	Financial	Ensuring a proportionate share of any replacement fund/funds, such as the UK Government's Shared Prosperity Fund, comes to Argyll and Bute.
6.3	Legal	All appropriate legal implications will be taken into consideration.
6.4	HR	None.
6.5	Equalities	All activities will comply with all Equal Opportunities policies and obligations.
6.6	Risk	Outlined in the main report.
6.7	Customer Services	None.

Pippa Milne, Executive Director of Development and Infrastructure
Cllr Aileen Morton, Leader and Policy Lead for Economic Development
13th April 2018

APPENDIX A

SCOTTISH PARLIAMENT ECONOMY, JOBS AND FAIR WORK COMMITTEE

INQUIRY INTO EUROPEAN STRUCTURAL AND INVESTMENT FUNDS

Submission by Argyll and Bute Council

INTRODUCTION

Argyll and Bute Council welcomes the opportunity to contribute to the Scottish Parliament's Economy, Jobs and Fair Work Committee's inquiry into the European Structural and Investment Funds in Scotland. Argyll and Bute Council is a member of the West of Scotland European Forum (WOSEF), has been working closely with WOSEF and through WOSEF with the Industrial Communities Alliance (ICA). Our responses to the inquiry will refer to the response submitted by the Forum, with the inclusion of specific issues for the Argyll and Bute area.

RESPONSE TO QUESTIONS

Current spending priorities and approval processes:

Bearing in mind that Structural Funds are governed by EU rules and regulations:

1. **How the Scottish Government identified and agreed spending priorities for its current ESIF allocations.**

   Argyll and Bute Council is in agreement with the response from the West of Scotland European Forum (WOSEF) in regard to this question.

   There were three key milestones in terms of consultation by the Scottish Government with stakeholders on the Scottish ESIF programmes for 2014-20:
   - Between 14th May and 30th June 2013 on the Scottish Chapter of the UK Partnership agreement;
   - Between 12th December 2013 and 17th January 2014 on the Scottish European Structural Fund programmes; and
   - Between 30th May and 16th June 2014 on the draft texts of the operational programmes (this was not a formal consultation).

   WOSEF submitted full responses to each of these exercises.

   The actual weaknesses of these processes were:

   - The analytical basis and corresponding intervention logic was not sufficiently articulated as a basis for the selection of priorities and allocation of resources.

   - A lack of substantive or complete material on which to comment – this was particularly the case regarding the breakdown of the overall programmes' budget. No information about proposed financial allocations (nor outputs and results) was included in either the May or December 2013 consultations so in essence views were being sought on a 'menu without prices'. It was only at the final stage that draft financial allocations and the associated outputs and results were made available and even then the information was incomplete and in some cases inconsistent.

- Challenging timescales - it was especially challenging to comment comprehensively on the draft operational programmes given the lack of time given - less than two weeks - and the length (in excess of 150 pages) of the programme documents.

Underpinning these ‘set piece’ exercises there was considerable degree of dialogue between the Scottish Government and stakeholders. However it was not always clear how this activity was being co-ordinated by the Scottish Government or whether a coherent plan was followed. Part of the problem lay in seeking to integrate the planning of a programme under the four different ESIF funds. In the past the process of preparing ERDF and ESF programmes was overseen by ‘Plan Teams’ involving stakeholders as well as the Scottish Government. While it is the case that supporting the work of Plan Teams does have resource implications, setting up such a mechanism would have improved the (two-way) flow of communication, improved the quality of the programme preparation process and enhanced stakeholder ‘buy in’ to the programmes.

2. **The processes the Scottish Government went through with the European Commission to gain approval for its ESIF plans.**

   As far as Argyll and Bute Council is aware this process of approval was between the Scottish Government and the European Commission and therefore the council is unable to comment.

3. **The involvement of SG agencies, local authorities and the third sector at this stage of the process.**

   Argyll and Bute Council is in agreement with the response from WOSEF with regard to this question as answered above for question one.

Current spending:

4. **How the differing needs of Scotland’s regions are accounted for in the current range of ESIF programmes.**

   The Highlands and Islands is a transition region, which grants the area with a greater funding allocation and intervention rate.

   Argyll and Bute Council officers are of the view that the current range of ESIF programmes has not fairly accounted for the differing needs of the Argyll and Bute area, in terms of understanding the complex geography which includes 23 inhabited islands and various remote peninsulas. The Managing Authority failed to account for the higher cost per participant of service delivery (including ferry costs and overnight stays) across a dispersed geography covering rural, remote rural and island communities. This was a significant factor for Argyll and Bute Council not being able to take up the ‘Enhanced Employability Pipeline’ intervention supported by the European Social Fund (ESF).

5. **How the 2014-2020 programme funding is being spent, which areas have benefitted and any issues with these commitments or processes.**

   Argyll and Bute Council is of the view that there are multiple reasons for issues with commitments and processes in the Highlands and Islands area.

   For this current programming period, the Council’s Business Gateway Team was eligible to undertake one ERDF funded programme as the Lead Partner i.e. the Business Gateway Local Growth Accelerator Programme (LGAP). This has benefited the micro, small and SME business community throughout Argyll and Bute through levering in £272k of ERDF monies (total cost circa £544k) to support workshops, specialist advice and funding. The funding support has been in terms of business growth grants up to £5,000; employment/graduate placement grants up to £12,000; and key growth sector grants up to £1,500 to attend trade fairs, training or achieve an accreditation. However, there was a significant delay in being in receipt of appropriate guidance to deliver this programme which in turn has resulted in a delay in the claims process.

Argyll and Bute Council has also been in receipt of ESIF monies, but not as the Lead Partner organisation. The Rothesay Pavilion has secured £1,055,602 from ERDF and Money Skills Argyll has been awarded £3.75m from ESF/Big Lottery.

Argyll and Bute Council was effectively excluded from several ERDF programmes such as the Green Infrastructure Fund and the Low Carbon Travel and Transport Fund:

- Applications to the ERDF Green Infrastructure Fund have only been accepted from an area with a population of over 10,000 (Helensburgh would be the only eligible location across the whole of Argyll and Bute). This has resulted in many areas across the Highlands and Islands being ineligible, which again demonstrates the failure to recognise the area's complex and rural geography.

- The ERDF Low Carbon Travel and Transport fund is another challenge fund where the total eligible project costs are set at a minimum of £250,000. A project of this scale is feasible for an urban area and demonstrates the failure to recognise the opportunity for smaller projects of scale for rural areas.

6. Understanding current accountability and reporting issues.

Argyll and Bute Council is a member of the Highlands and Islands Territorial Committee (HITC) and is aware that the purpose of this committee is to monitor accountability and report issues. Argyll and Bute Council welcomed this opportunity and believed that it was established for the right purpose, but in reality it has been an ineffective reporting mechanism. HITC is led by the Managing Authority and is structured in a way that there is a one-way stream of information down to members. There is little opportunity to present and discuss operational issues.

7. How current and previous programmes are evaluated and any suggested improvements to the evaluation process.

Argyll and Bute Council is in agreement with the response from the WOSEF with regard to this question.

In terms of oversight of the programmes Articles 47 to 49 of the ESIF General Regulation set out the composition and functions of the Programme Monitoring Committee (PMC). In Scotland a Joint PMC covering all four ESIF funds was set up. The JPMC generally meets only twice a year (the minimum frequency is once per year) but covering the key issues and reviewing performance in any depth within four programmes in the constraints of a two, to two and a half hour meeting is a very difficult task.

Beneath the JPMC there are a range of generally ad hoc Strategic Intervention or Investment Priority specific arrangements through which there is a degree of communication, review and collaboration between the Scottish Government and stakeholders. While this has been mutually helpful in many cases, a more systematic approach to the ongoing monitoring of programme performance and addressing issues on a cooperative basis would be highly desirable.

The evaluation requirements for ESIF programmes are set out in Articles 54 to 57 of the ESIF General Provisions regulation and Article 114 of this Regulation requires Managing Authorities – in this case the Scottish Government - to draw up an evaluation plan for the programme and submit this for consideration by the PMC. The long standing problem with evaluations is that very often the results of these exercises are only available long after the optimal time for implementing many of the lessons learnt has passed.

Future programmes:

8. **How any future replacement of ESIFs could be used to improve employment, infrastructure and productivity in Scotland's regions?**

   Consideration to replacement funding for ESIF programmes following Brexit continues to be a key issue for Argyll and Bute Council working closely with WOSEF, the Highlands and Islands European Partnership (HIEP; Argyll and Bute Council is a member) and the Industrial Communities Alliance (ICA). There is a broad agreement among officers that the key principles for improvement for any future funding, such as from the Shared Prosperity Fund to replace ESIF monies, are as outlined below:

   - Set the budget for the new fund/funds at a level, mirroring the current policy principles with regard to the allocation of European funding, that not only compensates for the loss of EU funding (£1.5bn a year) but also provides additional resources to match the scale of the challenge/opportunities that lie ahead of us;

   - Allocate the new fund/funds in fair and transparent ways that give priority to the development needs of local economies, such as Argyll and Bute. A fair allocation of funding should assist in reducing economic disparities rather than widening the gaps in economic performance with funding support focused disproportionately in areas that are already performing strongly;

   - Reform the rules on financial support to businesses to enable the delivery of more effective support in the places that need it most. This principle aligns with the one above in terms of a fair allocation for areas of need and will require more detailed consideration of what constitutes competition policy, such as State Aid, going forward;

   - Exploit the opportunity provided by this major revision of regional policy to align a wider range of public spending with the **priority of local and regional economic and social development**;

   - Secure continuity of funding over a sustained period rather than a series of disconnected, time limited and small scale initiatives (taking geography into consideration);

   - Funding allocations to be driven by the challenges to longer term sustainable competitiveness rather than chasing short term opportunities;

- Enable intervention at the right spatial scale **– geography does matter.** In this context the scope for linking this policy to the review of the Enterprise and Skills agencies and the various City/Growth Deal initiatives should be explored; and

- Ensure future processes are less bureaucratic, easy to understand and are transparent with greater clarity on the availability of match funding.

9. Which level of government is best placed to decide how future funding is allocated and what accountability processes should be in place?

Argyll and Bute Council officers are of the view that the structure of any new fund/funds, such as the Shared Prosperity Fund, should deliver support **more efficiently**, **more flexibly** and with **more local authority control**, with limited top-down management. The allocation of funding should adopt a flexible approach to determine the correct mix of aid to businesses, employability support and investment in economic infrastructure, based on local needs (principle of subsidiarity) with decisions made and managed at the local level.

10. What are the potential opportunities and risks presented by any replacement fund or programme for ESIFs?

Argyll and Bute Council officers are in agreement with the response from the WOSEF with regard to this question. Specific points for the Argyll and Bute area have been included below for consideration.

The key opportunities for Argyll and Bute at present with regard to any replacement fund/funds are as outlined below:

- A chance to have a fundamental rethink of the nature and scope of regional economic and social development policy in the UK and Scotland; EU policies in many respects have acted as a proxy for a UK regional policy;

- Significant savings in the administration and monitoring of the fund/funds. For example, in relation to the volume of documentation required and the period of time that these records must be retained; and

- Support for a bespoke mixture of people, business and place based activities required to unlock regional development potential and deliver inclusive growth rather than have to adhere to arbitrary allocations for a relatively narrow and prescriptive range of activities.

The main risks for Argyll and Bute at present with regard to a replacement fund/funds are as follows:

- No detailed consideration is given by the UK Government to the devolved and local government level on the issue and focus of regional policy (economic and social) and the challenges of the varied needs of the different sectors across distinct geographical locations within regions such as Argyll and Bute.

- Less external funding Argyll and Bute wide to address key economic and social challenges facing our communities in order to reach their full potential.

  In terms of demographics, the National Records of Scotland data for Argyll and Bute highlights that between 1996 and 2016, the 25 to 44 age group saw the largest percentage decrease (-31.4%). The 65 to 74 age group saw the largest percentage increase (+40.1%). Unless addressed, this trend is set to continue which will put further pressure on the social care sector with an increase client base and less people to deliver the required care.

- The UK Government and the Scottish Government does not give local government/Argyll and Bute Council the opportunity to put forward a collective and clear proposition with regard to future external funding requirements. This could result in a high risk that Argyll and Bute may miss out on receiving an appropriate and fair apportionment of the UK Shared Prosperity Fund or other replacement funds.

  It is so important that a clear proposition is made in order to capitalise on the continued opportunities and competitive advantage for regions such as Argyll and Bute. For example, as noted in Scottish Government's latest Annual Business Survey, 2015 (data two years in arrears) the Argyll and Bute tourism sector had a GVA of £88.3 million and that for food and drink, £91.9 million. Furthermore, around 24% of Argyll and Bute is classed as a woodland area, approximately 12% of the woodland coverage for Scotland. As outlined in the Argyll and Bute Woodland and Forestry Strategy, 2011, the direct Gross Value Added (GVA) of timber for Argyll and Bute was approximately £58 million.

If these opportunities are not realised and the risks not addressed, this will have an impact on the longer term growth of the Argyll and Bute, Scottish and UK economies.

APPENDIX B

SCOTTISH PARLIAMENT ECONOMY, JOBS AND FAIR WORK COMMITTEE

INQUIRY INTO EUROPEAN STRUCTURAL AND INVESTMENT FUNDS

Submission by the West of Scotland European Forum

INTRODUCTION

The West of Scotland European Forum (WOSEF) welcomes the opportunity to contribute to the Committee’s inquiry into the European Structural and Investment Funds in Scotland. The Forum brings together the 12 local authorities within the region as also a number of other organisations active in the West of Scotland. Issues relating to the development and implementation of European Structural Funds have been “core business” for WOSEF over a long period of time.

The Forum recognises the importance of European Structural and Investment Funds (ESIF) support through the Scottish Rural Development and UK Maritime and Fisheries Programmes for many rural and coastal communities within the West of Scotland. However this response focusses solely on European Regional Development Fund (ERDF) and European Social Fund (ESF) issues.

RESPONSE TO QUESTIONS

Current spending priorities and approval processes: Bearing in mind that Structural Funds are governed by EU rules and regulations: 1. How the Scottish Government identified and agreed spending priorities for its current ESIF allocations. 2. The processes the Scottish Government went through with the European Commission to gain approval for its ESIF plans. 3. The involvement of SG agencies, local authorities and the third sector at this stage of the process

There were 3 key milestones in terms of consultation by the Scottish Government with stakeholders on the Scottish ESIF programmes for 2014 -20

- Between 14th May and 30th June 2013 on the Scottish Chapter of the UK Partnership agreement;
- Between 12th December 2013 and 17th January 2014 on the Scottish European Structural Fund programmes; and
- Between 30th May and 16th June 2014 on the draft texts of the operational programmes (this was not a formal consultation)

The Forum submitted full responses to each of these exercises.

The actual weaknesses of these processes were:

- The analytical basis and corresponding intervention logic was not sufficiently articulated as a basis for the selection of priorities and allocation of resources.
- A lack of substantive or complete material on which to comment – this was particularly the case regarding the breakdown of the overall programmes' budget. No information about proposed financial allocations (nor outputs and results) was included in either the May or December 2013 consultations so in essence views were being sought on a "menu without prices". It was only at the final stage that draft financial allocations and the associated outputs and results were made available and even here the information was incomplete and in some cases inconsistent.
- Challenging timescales - It was especially challenging to comment comprehensively on the draft operational programmes given the lack of time given - less than 2 weeks -so to do and the length (in excess of 150pages) of the programme documents; and
- Of particular concern to WOSEF was the lack of coverage given to the South West Scotland Youth Employment Initiative (YEI). This probably was a reflection of the lack of capacity allocated to developing this initiative in the West of Scotland and the subsequent challenges for delivering this priority stem at least in part from insufficient work at the planning stage.

Underpinning these "set piece" exercises there was considerable degree of dialogue between the Scottish Government and stakeholders. However it was not always clear that this activity was coordinated or followed a coherent plan. Part of the problem lay in seeking to integrate the planning of programme under the four different ESIF funds. In the past the process of preparing ERDF and ESF programmes was overseen by "Plan Teams" involving stakeholders as well as the Scottish Government. While it is the case that supporting the work of Plan Teams does have resource implications, setting up such a mechanism would have improved the (2 way) flow of communication, improved the quality of the programme preparation process and enhanced stakeholder "buy in" to the programmes.

Current spending: 4. How the differing needs of Scotland's regions are accounted for in the current range of ESIF programmes. 5. How the 2014-2020 programme funding is being spent, which areas have benefitted and any issues with these commitments or processes. 6. Understanding current accountability and reporting issues. 7. How current and previous programmes are evaluated and any suggested improvements to the evaluation process

The Forum welcomes the committee's recognition in question 4 that there are a number of distinct regional economies and labour markets in Scotland – beyond the Highlands/Lowlands and Uplands distinction. The regional approach to economic development within Scotland has also been endorsed by the recent review of the Skills and Enterprise agencies – in particular through its identification of regional partnerships as a key workstream.

In its response to the consultation on the Scottish Chapter of the UK Partnership Agreement the Forum expressed concerns that:

“the proposed arrangements appear to exclude any significant element of spatial targeting”

No major changes in terms of a spatial dimension to the programmes subsequently occurred although notional budgets under some interventions led by local authorities did follow an allocation methodology. On the other hand many other interventions are “geographically blind”. There is thus a risk that for example ERDF activities aimed at business competitiveness and innovation – aimed at EU level in reducing economic disparities – may actually widen gaps in economic performance within Scotland if the actual location of supported activities is disproportionately in areas which are already performing strongly.

As the committee will be aware translating the commitment made under the programmes into declared expenditure to the European Commission has been problematic – with the result that the programmes’ target levels of expenditure by the end of 2017 were not met and around €22m lost to the programmes

There are a cocktail of reasons explaining why this situation has arisen, the most significant being:

- Delays in approval by the European Commission of the Programmes (December 2014) – this of course was an EU wide problem – the structural fund regulations were only adopted on 17th December 2013 and the Scottish programmes one year later in December 2014;
- Elongated Scottish Government appraisal and assessment procedures – the first Grant Offer letters not being issued until December 2015 – most were not issued until well into 2016;
- Continuing issues with the EUMIS (the MI system used to process claims and performance reports) with full functionality not being reached until summer 2017, some two years later than planned. It is important to note that claims must be accompanied by detailed performance data which for people bases interventions involves the transfer of large volumes of what is often sensitive data;
- Loss of Match Funding for example through the Local Government Settlement;
- Results of testing the market (advertisement, assessment and award of procured contract(s)) and/or running challenge funds
- Evidencing Participant Eligibility (especially for YEI and employability activities)
- Improvements in most local labour markets (ESF activities) reducing the number of potential clients; and
- Impact of Welfare Reform (Universal Credit) and of the introduction of Devolved Employability Services (Work First / Work Able / Fair Start Scotland.

In terms of oversight of the programmes Articles 47 to 49 of the ESIF General Regulation set out the composition and functions of the Programme Monitoring Committee (PMC). In Scotland a Joint PMC covering all 4 ESIF funds was set up. The JPMC generally meets only twice a year (the minimum frequency is once per year) but covering the key issues and reviewing performance in any depth within 4 programmes in the constraints of a 2 to 2 and a half hour meeting is a very difficult task.

Beneath the JPMC there are a range of generally ad hoc Strategic Intervention or Investment Priority specific arrangements through which there is a degree of communication, review and collaboration between the Scottish Government and stakeholders. While this has been mutually helpful in many cases, a more systematic approach to the ongoing monitoring of programme performance and addressing issues on a cooperative basis would be highly desirable.

The evaluation requirements for ESIF programmes are set out in Articles 54 to 57 of the ESIF General Provisions regulation and Article 114 of this Regulation requires Managing Authorities – in this case the Scottish Government - to draw up an evaluation plan for the programme and submit this for consideration by the PMC. The long standing problem with evaluations is that very often the results of these exercises are only available long after the optimal time for implementing many of the lessons learnt has passed.

Future programmes: 8. How any future replacement of ESIFs could be used to improve employment, infrastructure and productivity in Scotland's regions. 9. Which level of government is best placed to decide how future funding is allocated and what accountability processes should be in place? 10. What are the potential **opportunities and risks presented by any replacement fund or programme for ESIFs**

The Forum has been proactive on replacement funding for ESIF support following Brexit and is concerned that in recent months the work required to ensure a smooth transition between ESIF and the UK Government' proposed UK Shared Prosperity Fund appears to have stalled.

In considering the replacement funding for ESIF programmes following Brexit, WOSEF has worked closely with the Industrial Communities Alliance (ICA). WOSEF/ICA consider that the key principles underpinning the UK Shared Prosperity Fund should be as follows:

ICA KEY POINTS (GREAT BRITAIN LEVEL)

- Deliver the new UK Shared Prosperity Fund to take over the responsibilities of the EU Structural Funds
- Set the new Fund's budget at a level (outwith the Barnett formula) that not only compensates for the loss of EU funding (£1.5bn a year) but also provides additional resources to match the scale of the challenge
- Structure the new Fund in ways that deliver support more efficiently, more flexibly and with more local authority control;
- Allocate the new Fund in fair and transparent ways that give priority to the development needs of less prosperous regions and local economies;
- Reform the rules on financial support to companies to enable the delivery of more effective support in the places that need it most; and
- Exploit the opportunity provided by this major revision of regional policy to align a wider range of public spending with the priority of local and regional economic development.

WOSEF KEY POINTS (SCOTTISH DIMENSION)

- Continuity of funding over a sustained period rather than a series of disconnected, time limited and small scale initiatives;
- Allocations to be driven by the challenges to sustainable competitiveness rather than chasing short term opportunities;
- Intervention at the right spatial scale (i.e. below NUTS level 1) – geography does matter. In this context the scope for linking this policy to the review of the enterprise and skills agencies and the various City/Growth deal initiatives should be explored; and

- Flexibility at regional level to determine the right mix of aid to businesses, employability support and investment in economic infrastructure;

The main risks at the present time are:

- The fund is under resourced and/or is only available in the short term – regional economic disparities arise from long terms structural causes that cannot be dealt with adequately by short term fixes;
- The fund is not operational in time – leading to a hiatus in support for sustainable and inclusive growth
- There is undue top down management and direction of the fund –the principle of subsidiarity should apply;
- The audit and compliance procedures become as onerous as those associated with ESIF funds.

The key opportunities are:

- A chance to have a fundamental rethink of the nature and scope of regional economic development policy in the UK and Scotland – EU policies in many respects have acted as a proxy for a UK regional policy;
- Significant savings in the administration and monitoring of the funds – for example in relation to the volume of documentation required and the period of time that these records must be retained; and
- Support for a bespoke mixture of people, company and place based activities required to unlock regional development potential and deliver inclusive growth rather than have to adhere to arbitrary allocations for a relatively narrow and prescriptive range of activities;

ML
WOSEF/GCC
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