

Current European Funding and Officer Response to the Consultation ‘The Replacement of European Structural Funds in Scotland Post EU-Exit’

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide the members of the Environment, Development and Infrastructure (EDI) Committee with the a short overview of the current position of European funding allocations and programmes managed by Argyll and Bute Council and where the council is a beneficiary, and to retrospectively approve the officer response for ‘The Replacement of European Structural Funds in Scotland Post EU-Exit’ consultation issued by the Scottish Government.
- 1.2 The detailed Argyll and Bute officer response to each of the consultation questions is outlined in **Appendix 1**. The responses include commentary from the SLAED European Group and from COSLA as appropriate. The questions are generally framed in providing a specific response for Argyll and Bute.
- 1.3 Members are asked to:
- Note the content of this report with regard to current European funding.
 - Note the officer draft response to the recent consultation outlined in **Appendix 1**. As the deadline for submission to the Scottish Government was 12th February 2020, officers submitted a response aligned to the requested timetable. This paper was considered and commentary provided for inclusion in the response by members of the Strategic Management Team (with input from the Council Leader).
 - Agree to homologate the officer response. Any additional substantive comments raised by members of the EDI Committee will be submitted by e-mail to the Scottish Government department that is responsible for future funding.

Current European Funding and Officer Response to the Consultation ‘The Replacement of European Structural Funds in Scotland Post EU-Exit’

2.0 INTRODUCTION

- 2.1 The purpose of this report is to provide the members of the Environment, Development and Infrastructure (EDI) Committee with the a short overview of the current position of European funding allocations and programmes managed by Argyll and Bute Council and where the council is a beneficiary, and to retrospectively approve the officer response for ‘The Replacement of European Structural Funds in Scotland Post EU-Exit’ consultation issued by the Scottish Government.
- 2.2 The detailed Argyll and Bute officer response to each of the consultation questions is outlined in **Appendix 1**. The responses include commentary from the SLAED European Group and from COSLA as appropriate. The questions are generally framed in providing a specific response for Argyll and Bute.

3.0 RECOMMENDATIONS

- 3.1 Members are asked to:
- Note the content of this report with regard to current European funding.
 - Note the officer draft response to the recent consultation outlined in **Appendix 1**. As the deadline for submission to the Scottish Government was 12th February 2020, officers submitted a response aligned to the requested timetable. This paper was considered and commentary provided for inclusion in the response by members of the Strategic Management Team (with input from the Council Leader).
 - Agree to homologate the officer response. Any additional substantive comments raised by members of the EDI Committee will be submitted by e-mail to the Scottish Government department that is responsible for future funding.

4.0 DETAIL

Current European Funding

European Structural and Investment Funds

- 4.1 European Structural and Investment Funds (ESIF) currently help to fund a number of economic development programmes in Scotland, supporting public bodies such as local authorities, Highlands and Islands Enterprise, Scottish Enterprise, the Scottish Funding Council, Skills Development Scotland and some of the work delivered by the Scottish Government itself for a wide range of activities, including skills and training programmes, research and development, support to business and the development of infrastructure.
- 4.2 The ESIF are predominantly made up of European Regional Development Funds (ERDF) and European Social Funds (ESF). ERDF monies aim to strengthen economic and social cohesion by correcting imbalances between regions. ESF monies aim to help people improve their lives by learning new skills and finding better jobs.
- 4.3 Total ESIF monies secured for Argyll and Bute Council projects for this current European programming period is circa £3.5 million, as detailed below.
- 4.4 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), Phases 1 and 2, 2015-2022. The LGAP is benefiting the micro, small and SME business community throughout Argyll and Bute through the opportunity to lever in just over £524k of ERDF monies (total programme value £855k with a 61.3% intervention rate) to support specialist advice and grant funding. To date a total of just over £212k of ERDF has been claimed and paid out by the Scottish Government.
- 4.5 Argyll and Bute Council is also a beneficiary of ESIF monies, but not as the Lead Partner organisation. This relates to two projects/initiatives namely the Rothesay Pavilion and Money Skills Argyll (MSA).
- 4.6 The Rothesay Pavilion has secured £1,055,602 from ERDF. To date a total of £621k (circa 60%) of ERDF has been claimed from the Scottish Government
- 4.7 MSA (100% externally funded) has been awarded £1.875m from ESF with the Lead Partner being the Big Lottery, where the Big Lottery Community Fund has provided the required 50% of match funding. Support work with eligible participants ends on 19th February 2020. At the end of December 2019, a total of £654k had been spent on the project, covering the costs of the MSA Team within the council and payments to partner agencies who are undertaking the support work with eligible participants. It is unlikely that ESF monies will be drawn down as the match funding share of the Big Lottery Community Fund has not

been spent. However, this situation may change and clarity should be provided to the MSA Team in due course.

- 4.8 All ESF payments had been suspended by the Scottish Government, but through negotiations with COSLA and the Scottish Government recent progress has been made on paying claims that have already been submitted and those ready to be submitted. It should be noted that Argyll and Bute Council is not the lead partner for any projects that have secured ESF monies during the 2014-2020 European programming period. The only project that has ESF as a funding element is MSA noted above where the lead partner is the Big Lottery Fund.

Argyll and the Islands LEADER Programme

- 4.9 **Table 1** outlines the current position with regard to Argyll and the Islands LEADER funding. It should be noted that the LEADER programme overall closed on 31st December 2019 with full financial completion by end of December 2020. The figures presented in **Table 1** will be subject to revision over time, e.g. if projects underspend (in particular, this affects co-operation projects where the Argyll and the Islands LEADER Local Action Group (LAG) is not the original source of the figures).

Table 1: Argyll and the Islands LEADER Programme: Budget and Commitments			
	Budget £	Committed £	No of Projects
Theme 1 & 2	2,364,593	2,168,134	22
Theme 3 - Enterprise + Farm Diversification	1,377,226	695,633	11
Co-operation	244,307	142,153	7
Administration	900,000	725,000	-
Total	4,886,126	3,730,920	40

Source: Argyll and the Islands LEADER Team, January 2020

- 4.10 It should be noted that just over £700k of project monies had to be returned to the Scottish Government and reinvested by other LAG areas. This was due to three substantive capital projects that had been awarded LEADER funding by the LAG not going ahead for the following reasons (which was disappointing circumstances to the LAG members and the LEADER Team alike):
- The procurement procedures were not carried out for a large capital project in a manner compliant with LEADER/EU requirements (despite LEADER staff providing advice);
 - The required information was not submitted by the final deadline of the end of December 2019 to approve the LEADER award, where unprecedented extensions were afforded to the applicant; and
 - For the third project the applicants were a couple, where unfortunately one died and the estate issues of the deceased were not resolved to meet LEADER funding timescales.

There is currently an underspend in the Administration budget due to only one externally funded staff member left in the LEADER Team where the original complement was five (recruitment attempts have been

unsuccessful due to the short duration of contracts and candidates with no LEADER experience).

- 4.11 All full reconciliation of LEADER funding that was not committed and returned to the Scottish Government is being prepared and a financial report will be posted on the LEADER website in due course. There will also be a requirement to undertake an evaluation of the Argyll and the Islands LEADER Local Development Strategy during 2020/21.

European Maritime & Fisheries Fund (EMFF) and the Argyll and Ayrshire Fisheries Local Action Group (FLAG)

- 4.12 The latest update on EMFF is as follows:

- Total EMFF Award £985,000.
- Committed funds: £111,870.
- Remaining funds: £873,130.

- 4.13 To date, the total value of EMFF sought from three expressions of interest (EOIs) invited by the Argyll and Ayrshire FLAG to submit a full application is £1,153,500, which exceeds the £873,130 of remaining funds.

- 4.14 There are a further two pending enquiries and the potential applicants have been sent the EOI form to fill out and return, along with the necessary guidance. The FLAG agreed that funding will be awarded on a first come, first served basis given that the current funding sought from EMFF exceeds the Argyll and Ayrshire FLAG allocation.

- 4.15 The £111,870 was spent on the 'Feasibility of Seaweed Farming in Argyll and Bute: A Guide for Developing the Industry' (100% funded). This is now completed with the report signed off and available. The report will be presented at the Scottish Seaweed Industry Association Annual Conference in Oban on 18th February 2020. A link to a council news article on the report and a link to the full report is available on the following link: <https://www.argyll-bute.gov.uk/news/2019/dec/report-provides-template-seaweed-farming-argyll-and-bute>

- 4.16 It should be noted that the EMFF programme will close at the end of December 2020 and it is anticipated that full financial completion will be required by the end of 2022, but awaiting confirmation.

Officer Response to Consultation 'The Replacement of European Structural Funds in Scotland Post EU-Exit'

- 4.17 The detailed Argyll and Bute officer response to each questions is outlined in **Appendix 1**. The responses include commentary from the SLAED European Group and from COSLA as appropriate. The questions are generally framed in providing a specific response for Argyll and Bute.

- 4.18 Under the current 2014-2020 programmes, Scotland benefits from over £780 million of funding through the ERDF and ESF. The loss of this funding will have a significant impact on the ability of local authorities,

community groups, funding bodies and enterprise and skills agencies to deliver the kinds of initiatives that will drive inclusive economic growth and promote wellbeing and cohesion in communities right across the country.

4.19 The UK Government has announced that it will roll out a successor programme to European Structural Funds called the UK Shared Prosperity Fund aimed at tackling “inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind”. This is Scotland’s opportunity to set out how any new fund should be designed and to ensure that Scotland has a say in the creation of a new policy approach that could transform the promotion of inclusive economic growth. However, this is set in the context that the UK Government has yet to provide further details on how this replacement fund might work or how Scotland, and the other devolved nations, will be involved in its development.

4.20 The purpose of this consultation is to clarify:

- the aim and objectives of post EU Exit funding in Scotland;
- how to maximise its added value;
- the extent to which it should be aligned with Scottish, UK and EU policy priorities;
- whether and how it should be concentrated thematically or geographically;
- the appropriate arrangements for monitoring and evaluation; and
- the most effective and efficient approach to governance and partnership.

4.21 Scottish Ministers have identified five non-negotiable points to influence any replacement funding:

- 1) Scotland should not lose out financially compared to the current level of funding it receives from the EU;
- 2) The devolution settlement must be respected and there must be no attempt by the UK Government to take back powers that the Scottish Government has rightfully executed to date;
- 3) The Scottish Government’s role in the development of the Shared Prosperity Fund should be as partners, not merely consultees;
- 4) The current level of flexibility of allocation of funds should not be reduced under post EU exit funding arrangements; and
- 5) The replacement should be operational from 1st January 2021 in order to be implemented in early 2021 so that our stakeholders do not suffer any difficulties due to funding gaps.

4.22 The Scottish Government has established a Steering Group to oversee this consultation. Comprised of experts drawn from a range of key partners, members of the Steering Group will act in an independent capacity to analyse the ideas and views which emerge from the consultation process in order to ensure that stakeholders are empowered to provide their input, experience and expertise in the co-production of potential replacement funding.

- 4.23 As articulated in the response to Q1, Argyll and Bute Council officers believe that at this time there is an opportunity 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. It is important that a clear focus is given to an appropriate regional/sub-regional strategy and/or policy to align a wider range of public spending with the priorities of local and regional economic and social development.
- 4.24 There is a need to capitalise on the continued opportunities and competitive advantage for regions such as Argyll and Bute. The area has abundant energy resources (water, wind, marine), world class life science businesses, university research and a pristine and growing marine economy. The tourism industry and natural heritage is second to none, as are food and drink, including aquaculture. The entrepreneurial attitude and ambition of businesses and communities has created and will continue to create opportunities in the most unlikely parts of the UK. To build on this and allow the area to flourish requires the correct level and type of investment from future replacement funding to take advantage of these opportunities.

5.0 CONCLUSION

- 5.1 This report provides members of the EDI Committee with an overview of the current position of European funding allocations and actual spend throughout Argyll and Bute.
- 5.2 It is important that Argyll and Bute Council provides a local response to the current Replacement of European Structural Funds consultation as well as aligning, as appropriate, to a collective response made by the SLAED European sub-group and COSLA. Argyll and Bute Council officers also provided input to a consultation event hosted by the Scottish Government on 10th January 2020 and to the collective SLAED response at a workshop on 20th January 2020.
- 5.3 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. Furthermore, focus is on ensuring the delivery of fair and transparent apportionment of future funds to peripheral areas such as Argyll and Bute. 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 with decisions made and managed and impacts realised at the local level.

6.0 IMPLICATIONS

- 6.1 Policy Local Outcome Improvement Plan, where the vision is that Argyll and Bute's economic success is built on a growing population.

6.2	Financial	Ensure the financial compliance of existing European funded projects and programmes managed by Argyll and Bute Council. Going forward to secure a proportionate and fair share of any replacement funds through the UK Government's Shared Prosperity Fund for Argyll and Bute.
6.3	Legal	All appropriate legal implications will be taken into consideration.
6.4	HR	None at present.
6.5	Fairer Scotland Duty	The Fairer Scotland Duty, Part 1 of the Equality Act 2010, came into force in April 2018. The duty places a legal responsibility on particular public bodies in Scotland, such as Argyll and Bute Council, to pay due regard to (actively consider) how they can reduce inequalities of outcome, caused by socio-economic disadvantage, when making strategic decisions and how this has been implemented. For the consultation this has been addressed at a national and local level, see responses to Q2, Q5 and Q14.
6.5.1	Equalities	All activities will comply with all Equal Opportunities/Fairer Scotland Duty policies and obligations.
6.5.2	Socio-economic Duty	Any future funding streams should focus on removing socio-economic disadvantage for residents across Argyll and Bute
6.5.3	Islands	There is a requirement to enable intervention at the right spatial scale – geography does matter, including our 23 inhabited islands.
6.6	Risk	There is the potential that existing European funded projects may de-commit and not spend allocated monies. This will be monitored closely by council officers, where appropriate assistance will be provided to projects aligned to current staff capacity. There would be a risk if Argyll and Bute Council did not submit a response to this consultation. It is important that the issues noted for Argyll and Bute in Appendix 1 are submitted to the Scottish Government for consideration
6.7	Customer Services	None.

**Kirsty Flanagan, Interim Executive Director with responsibility for
Development and Economic Growth
Cllr Aileen Morton, Policy Lead for Economic Growth**
24th February 2020

For further information contact:

Ishabel Bremner, Economic Growth Manager, tel: 01546 604375

APPENDICES

Appendix 1: Officer Response to Consultation Questions

A Strategic Aims

Objectives

Scottish Ministers want to take this opportunity to design a flexible source of additional funding that drives inclusive economic growth and makes a measurable and significant difference to the lives of people, businesses and communities across Scotland. With this in mind:

1. What are the main aims that this funding should seek to achieve?

In the first instance, Argyll and Bute Council officers believe that at this time there is an opportunity 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. It is important that a clear focus is given to an appropriate regional/sub-regional strategy and/or policy to align a wider range of public spending with the priorities of local and regional economic and social development.

In support of regional/sub-regional strategies, the overarching aim of the funding should be to focus on the economy, fair work and business, and communities aligned with the National Performance Framework (as per response to Q8). In particular, future funding should be directed to tackling some of the long term issues acting as a constraint on sustainable and inclusive economic growth within Scotland and indeed Argyll and Bute. Recent data releases from ONS suggest that the extent of regional disparities at NUTS II level within Scotland in terms of GVA are significantly greater than hitherto estimated; even within more prosperous regions there are concentrations of deprivation and inequality that the fund should be able to address.

This reinforces the need for the resources and timeframe of the fund to be set at a level to be able to make an impact on inclusive growth. At the very least the annual allocation for Scotland as a whole should match that of the current programming period, adjusted for inflation.

The policy space that the funds occupy should also include infrastructure. Infrastructure investment is a key driver for increase productivity in remote rural and island areas as it creates the conditions for competitiveness. In particular, the future fund could focus on supporting ICT infrastructure improvements which is essential to overcome the challenges and economic/productivity disadvantages of peripheral areas such as Argyll and Bute with a unique geography comprising of some urban but mainly rural, remote rural and islands communities.

Furthermore, from a rural point of view a future fund should also incorporate a focus on community-led local development as provided under the current LEADER programme delivered through the Scottish Rural Development Programme.

There is a need to capitalise on the continued opportunities and competitive advantage for regions such as Argyll and Bute. The area has abundant energy resources (water, wind, marine), world class life science businesses, university research and a pristine and growing marine economy. The tourism industry and natural heritage is second to none, as are food and drink, including aquaculture. The entrepreneurial attitude and ambition of businesses and communities has created and will continue to create opportunities in the most unlikely parts of the UK. To build on this and allow the area to flourish requires the correct level and type of investment from future replacement funding to take advantage of these opportunities.

In short, there is a strong case for local partners to be given greater flexibility to define the types of projects on which a future fund is spent, in order to tackle a wider range of economic and social development issues than those presently addressed by EU funding.

2. How could funding be used most effectively to address spatial inequalities between areas and communities in Scotland?

A mix of supply side and demand side activities should be supported. However the precise blend of measures to support will vary from place to place and it is therefore important that the national framework for the funds includes substantial scope for regional and local determination of priorities. Recent EU Structural Fund programmes have become very prescriptive and top down in terms of the range of activities eligible for funding and this opportunity should be taken to widen the menu, in particular in the area of capital investment in places.

There is a need to ensure the delivery of a fair and transparent apportionment of future funds to peripheral areas such as Argyll and Bute. The requirement for future funding to be adequately resourced is shown by the very significant regional economic disparities in the UK, in particular the dominance of London. In March 2019, Eurostat figures put inner London at 626% of the EU GDP average per person, with Scotland as a whole at 98%, just below the EU average and two percentage points less than 2018.

Argyll and Bute is a region of ambition. However, the current range of European Structural Fund programmes has not fairly accounted for the differing needs of the Argyll and Bute area, particularly 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).

If match funding is required this should be based on need with a variable scale in terms of intervention rates to promote the allocation of funding in a fair and transparent way that gives 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.

3. Geographically, at what level would the priorities for funding be best set?

As noted under the response to Q1, the allocation of funds across regions within Scotland is something the Scottish Government should be encouraged to look at afresh. There is a requirement to enable intervention at the right spatial scale – **geography does matter**. Given that local economies generally operate across local authority boundaries it would not make sense to draw up allocations to each of Scotland's 32 local authorities. In this context the scope for focusing on the geographies for the various City/Growth Deal initiatives should be explored.

Argyll and Bute's Rural Growth Deal mirrors the vast geography of the local authority area. A sub-regional element of funding allocated to Argyll and Bute would be helpful given the area's complex geography of which includes 23 inhabited islands and various remote peninsulas. This will provide local control over future funding as currently afforded by the Argyll and the Islands LEADER and European Maritime and Fisheries Fund (EMFF) programmes. Indeed, it would be beneficial if funding for rural development issues, such as the present LEADER programme could be encompassed along with the Structural Funds in such a future funding stream.

In short, a flexible approach would need to be taken in terms of the most appropriate geographical level of intervention – this could either be at local, regional or Scottish levels but the default position should be that it should be at the lowest possible level. However the issue is not just one of appropriate geography – it is also one of genuinely empowering stakeholders at local and regional level to shape what activities are supported within their territory.

Alignment with Scottish Policy and Other Funding Streams

Scotland has a set of high-level strategic documents that guide the direction of our policy development and spend. These are focused on inclusive economic growth and include our National Performance Framework, our Economic Strategy, our Programme for Government and our new Enterprise and Skills Strategic Board approach.

4. How could the use of future funding add value to other sources of funding focused on similar objectives in Scotland?

At policy level one of the key drivers of the fund at national level should be Scotland's Economic Strategy, in particular its stated commitment to pursuing territorial cohesion. There is scope to review the dissemination of funding to regional/sub-regional levels aligned to regional and local economic strategies, with a focus on delivery of the vision and aspirations of these documents on the ground. This will be most effective if a long term multi annual approach is

taken not just by the fund itself but also by any 'domestic' funding streams with which alignment is sought.

One of the positive aspects on EU Structural Funds has been the principle of additionality and this should be maintained in the replacement framework. While there should of course be alignment with other funding streams the fund needs to have its own distinct identity to ensure transparency as well as additionality.

With regard to using future funding to add value to other sources of funding focused on similar objectives in Scotland there needs to be clear guidance, such as what funding will be eligible as match, intervention rates (not constrained at 50% as set by previous EU regulations, but where a rate of 50% is adopted as a minimum) and ensuring other funding streams run for a similar time period. Currently many sources of funding are for discrete, time-bound, initiatives. In short, there is no need to replicate the same match funding rates currently set by EU rules, but if a match funding model is introduced into the fund then the intervention rate should reflect the realities of the long term constraints on public sector finance.

Where the fund is being directly aligned at operational level with other funding streams it follows that it should deliver additional outcomes and results to those that would be achieved by these sources of funding.

At present the £50m allocation to Argyll and Bute's Rural Growth Deal, announced recently aligns to pre-defined projects. Guidance will also be required on how Deal funds, which will only become available to Argyll and Bute stakeholders in the medium to longer term, can be used to lever in additional funds to replace European Structural Funds.

Alignment with UK and EU Policy

The UK Government has said that the SPF will be aligned with its Industrial Strategy and will focus on increasing productivity. At the same time, the European Union is evolving its Cohesion Policy with a structure of 5 themes: A Smarter Europe; A Greener, carbon free Europe; A Connected Europe; A More Social Europe; and A Europe closer to citizens, to create a more tailored approach to regional development in order to drive EU investments.

5. What practical value would you see in future funding in Scotland being aligned with the UK Industrial Strategy and other spatially-differentiated UK economic policies such as the City and Regional Deals or the Industrial Strategy's sectoral approach?

At present it is not clear what, if any, conditions the UK Government will place on this funding although the commitment to respect the devolution settlement is noted and welcomed. The deployment of the funds in Scotland should essentially be driven by Scottish priorities and circumstances.

Argyll and Bute Council officers are of the view that future funding in Scotland should be complementary the five foundations of productivity in the UK Industrial Strategy (ideas, people, infrastructure, business environment and places) and other UK spatial economic policies, in order to deliver a fair and

transparent apportionment of future funds to peripheral areas such as Argyll and Bute. 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 and impacts realised at the local level.

Such funding should deliver support more efficiently, more flexibly and with more local authority control, with limited top-down management.

In terms of the contribution to the Scottish Government's Economic Strategy a specific focus has been given to promoting the Scottish Government's inclusive growth and addressing inequalities through the 'No One Left Behind' policy direction, where Argyll and Bute is recognised as a region of ambition with 'No Business Left Behind' and 'No Community Left Behind'.

The Argyll and Bute area has abundant energy resources (water, wind, marine), world class life science businesses, university research and a pristine and growing marine economy. The tourism industry and natural heritage is second to none, as are food and drink, including aquaculture. The entrepreneurial attitude and ambition of businesses and communities has created and will continue to create opportunities in the most unlikely parts of the UK. To build on this and allow the area to flourish requires the correct level and type of investment from future funding, such as the UK Shared Prosperity Fund (UK SPF) to take advantage of these opportunities. As already noted in response to Q4, guidance will also be required on how Deal funds, which will only become available to Argyll and Bute stakeholders in the medium to longer term, can be used to lever in additional funds to replace European Structural Funds.

6. What practical value would you see in maintaining alignment with EU Cohesion Policy?

Future funding streams should maintain the ethos of the EU Cohesion policy direction through a continued approach to having a ring-fenced source of funding for peripheral regions of Europe such as Argyll and Bute. EU Cohesion policy has provided a good basis for targeting investment to remote and peripheral areas across Europe.

Furthermore, it would also be useful to maintain linkages with the next phase of EU Cohesion Policy. In practical terms this would be of use in facilitating access to the 2021-27 generation of European Territorial Cooperation programmes. This is of course dependent on the UK "buying in" to these programmes.

One of the practical downsides of the EU approach to Cohesion Policy over the past two funding cycles has been the high degree of top down prescription or "earmarking" which has hindered regional and local flexibility to use the funds to best effect. Such constraints should not form part of the replacement funding.

Evaluation and Monitoring Progress

In order to ensure that any new fund is achieving its aims and objectives, it is important that an evaluation approach is developed in parallel.

7. How could we best evaluate the success of this new fund?

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 systems and/or frameworks put in place to undertake monitoring and evaluation activities need to be fit for purpose. At the outset this will require putting in place a minimum standard of evaluation, complete with clear guidance materials, which will include agreed criteria and data requirements. In order to track local outcomes consideration needs to be given to providing an administration budgetary resource, as done so by a 25% allocation for the current LEADER programme. A reasonable degree of flexibility should also be considered to respond accordingly to a changing external environment, whether through dealing with an economic shock or capitalising on emerging opportunities.

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.

8. What relevant parts of the National Performance Framework should this funding be targeted towards?

In order to be able to evaluate the impact of the fund it is important that the performance framework – including the identification of relevant indicators – is integrated into the development of the programme and not “bolted on” at the end of the process. A partnership approach would be required to ensure that there is shared ownership of the targets set, out for the funds.

The performance framework could include a mixture of traditional quantitative measures (jobs created, uplift in GVA etc.) with where appropriate, particularly for rural areas, more qualitative indicators. There also needs to be a recognition that there may be a significant time lag between activity and impact. This is especially important if the support is aimed at tackling some of the long term structural barriers to inclusive economic growth within Scotland.

At a local level it could be appropriate to support funding toward the six key outcomes of the Argyll and Bute Community Planning Partnership where these themes in turn align to the National Performance Framework outcomes, as detailed in the table below.

Argyll and Bute CPP Outcomes	National Performance Framework Outcomes
1. The economy is diverse and thriving	Economy – we have a globally competitive, entrepreneurial, inclusive and sustainable economy. Fair Work and Business – we have thriving and innovative businesses, with quality jobs and fair work for everyone.
2. We have infrastructure that supports sustainable growth.	Economy – we have a globally competitive, entrepreneurial, inclusive and sustainable economy.
3. Education, skills and training.	Education – we are well educated, skilled and able to contribute to society.
4. Children and young people have the best possible start.	Children and young people – we grow up loved, safe and respected so that we realise our full potential.
5. People live active, healthier and more independent lives.	Health – we are healthy and active.
6. People live in safer and stronger communities.	Communities – we live in communities that are inclusive, empowered, resilient and safe.

However, given the likely scale of resources available to the fund and the distinct budget resources already aligned to Education and Health (where both include a focus on children and young people) a selective approach to identifying the relevant elements of the National Performance Framework is needed. On that basis, it may be more appropriate to focus replacement funding under the following parts of the National Performance Framework:

- the Economy;
- Fair Work and Business; and
- Communities.

A particular emphasis should be placed on using the fund to narrow the gaps in performance within Scotland on the relevant indicators within these headings. In addition, consideration needs to be given to the rural economy framework and associated 10 rural outcomes that contribute to the National Performance Framework.

9. Which specific aspects of the monitoring and evaluation framework from European Cohesion Policy do you consider would be beneficial to retain for any new fund?

The shift away from inputs with a greater focus on outcomes was welcomed under European Cohesion Policy. However, the focus on outcomes needs to be proportionate with regard to the anticipated impact of funded project or initiative. Therefore a less intrusive approach compared with the current situation should be taken with respect to the volume of monitoring data required particularly with respect to inputs. This should enable more focus to be placed on outputs and results and take into account the procedures and requirements of “domestic” funding streams.

While it is the case that there has been a lot of interesting evaluation work

done on EU Structural Fund programmes in Scotland, very often the results have only become known at a time when it is too late to influence delivery. An attempt should be made to have more “real time” evaluations carried out.

Evaluation has also tended to be “top down” and the scope to introduce “peer to peer” monitoring and evaluation should be considered – recognising however that there would be resource requirements associated with such an approach. These should be made available from the replacement fund as a form of “technical assistance”.

B GOVERNANCE STRUCTURES OF FUTURE FUNDING

Allocation and Programme Duration

Whilst funding allocations will largely be determined by our objectives, we must make sure that our approach is developed in an appropriate manner which is sensitive to differing needs across Scotland. We also need to be clear about the timeframes over which any funding programme would operate.

10. What approach should be used to allocate the funding at programme level - including the most effective duration of the programme that would better support the identified priorities?

Any future replacement funding should be managed outside the Barnett formula to ensure that the allocations are based on need rather than population. This is of particular relevance to peripheral areas such as much of Argyll and Bute.

A multi-annual approach to the allocation of funding under the current EU Cohesion Policy should be maintained (currently seven years inclusive) to promote greater local flexibility to make adjustments to deal with unexpected economic shocks and emerging opportunities.

The reintroduction of a biannual challenge fund approach will enable the ability to secure appropriate funding in order to capitalise on opportunities. Furthermore, this will require clear guidance on other eligible funding sources (at a UK and/or Scottish level) to lever in such future funding streams.

11. What would be the most appropriate partnership and governance structure to achieve the strategic objectives of the future funding?

There is the potential to revisit the Highlands and Islands Partnership Programme (HIPP) approach which afforded the access to staff that had regional expertise and where learning was shared at the regional level. The current centralised model does not lend itself well to the need for a more localised approach. The totally internalised decision making approach by the Scottish Government has adversely affected the transparency of programme management.

A fundamental change is required here - it is really important that there is genuine partnership working at all stages in the process: from initial programme design through decision making to monitoring and evaluation. This would provide much more “buy in” to the programme and what it seeks to

achieve.

The current LEADER Local Action Group (LAG) approach, where LAG members comprise of various public and community based partners across the Argyll and the Islands area, promotes a clear and transparent governance structure at the local level.

12. What would be the most effective delivery model to ensure maximum leverage of funds from public and private sectors to regional investments?

As noted in the response to Q10, Argyll and Bute officers believe that a multi-annual allocation funding coupled with a biannual challenge fund approach would provide a means to secure new funding sources, with clear criteria and appropriate lead-in times, to enable the preparation of shovel ready projects aligned to local opportunities, including Rural and City Deals. This approach will limit the current requirement for upfront investment for the identified strategic interventions and minimise the risk of projects not being supported, for example, due to the lack of match funding being available further to the ongoing reduction of core funding to local authorities.

On the technical side the current Strategic Intervention/Operation approach has proved to be very elongated and cumbersome, characterised by large-scale duplication and major changes to the delivery model would be required in the replacement programme. An additional point is that national challenge funds (rather than the suggested local approach in the above paragraph) are not always effective at targeting resources at those areas (either spatial or thematic) where they are most needed and this approach should be avoided in the replacement funding framework.

13. What capacity-building or other support is needed to ensure the ability of local partners and communities to participate in the programme?

Overall, local authorities have a key role to play as champions of the community planning and community empowerment processes. However in order for them to discharge these roles effectively they need to be provided with the appropriate capacity – local authorities cannot meet the aspirations of their communities if they are “running on empty.” In this context the experience of the LEADER programme could be used to inform developments.

Argyll and Bute Council officers would welcome a strong Managing Authority or equivalent to interpret UK and/or Scottish Government funding rules and regulations complete with funded local staff to manage and take forward such funding opportunities, including claims. With an increased staffing capacity (again as provided under the LEADER model with an administration budget of 25% of the total funding allocation) local authority staff would be able to provide more assistance on the project development side with applicants from communities and/or local businesses.

Local input into the design of the fund would be welcome with greater flexibility to take account of differing challenges in the various regions within Scotland, including Argyll and Bute.

14. What can be learned from the design and delivery of the current and previous European Structural Fund Programmes in Scotland?

The principle of additionality should be retained. This means that spending priorities should focus on medium term priorities (e.g. employability, broadband) that need to be locally determined, but refer to wider national and international priorities. Allocations for this replacement funding should be left outside the Barnett formula.

One of the major defects of the EU Structural Funds regime has been the increasingly onerous requirements in relation to verification, compliance and audit. There is a real opportunity to streamline the layers of checks – nothing is more inefficient than having something approved at one level of checking only to be rejected the next level up. Beyond the mechanics of the compliance regime there should be a greater degree of trust in local authority financial management and audit procedures rather than the current “presumption of guilt”.

If one of the key purposes of the fund is the reduction of spatial inequalities within Scotland then this surely implies a genuine devolution of funding and decision making to a regional or local level where the detailed knowledge of what is required lies.

For rural areas, such is the case for most of Argyll and Bute, the development of these new funding frameworks should be used to progress the existing community empowerment agenda, advocated by LEADER/CLLD, and existing and forthcoming Scottish legislation; while doing away with some of the constraints currently imposed by EU rules as regards embedding LEADER/LAG in the wider local authority economic and community planning policies.

Simplification of this new funding instrument would allow us to do away with EU imposed earmarks (such as compulsory 20% for research, or the expectation of spending **only** 5% of funds in rural economic diversification and capacity building). This is both an opportunity and a risk, particularly the above mentioned 5% earmark to LEADER, as this came from Brussels and there may be pressure from the farming sector to scrap altogether any earmark for community empowerment and rural diversification. Equally, as noted in the response to Q4, there is no need to replicate the same match funding rates currently set by EU rules, and in some cases, these match funding obligations could be done away with altogether.

While there is recognition of the added value of some of the policy and governance elements of the EU funds, there is a clear view that future funding should not be tied to path dependencies (i.e. there is no need to mirror EU funds present or future where it does not make sense). New frameworks should be developed that make sense Scotland at community, local and regional levels.