

SCOTTISH PARLIAMENT FINANCE AND CONSTITUTION COMMITTEE INQUIRY INTO FUNDING OF EU COMPETENCES

June 2018

INTRODUCTION

The East of Scotland European Consortium (ESEC) was established in 1991 to represent the European interests of local authorities in Eastern Scotland. We have a membership of 7 local authorities within this area (Aberdeen City, Angus, Dundee City, Falkirk, Fife, Perth and Kinross, and Stirling). Our member councils have been fully engaged with the both the previous and current EU funding programmes and we therefore welcome the opportunity to respond to this consultation on the funding of EU competences

Current spending priorities and approval processes

Scottish Government's identification of spending priorities for its ESIF allocations.

The Scottish Government launched a consultation on European Structural and Investment Fund (ESIF) thematic objectives and spending priorities in 2013, and ESEC welcomed the opportunity to contribute. Please see our response [here](#).

The regulations for the 2014-2020 programmes contained a significant local development element and on that basis COSLA represented local authorities in initial discussions which kicked-off with a High Level Group meeting in 2012, during which COSLA urged the Scottish Government to scope the key spending priorities and delivery arrangements at the local level.

The proposed Strategic Interventions were initially considered by a Scrutiny and Risk Panel which was composed solely of Scottish Government officials. Stakeholders raised the lack of transparency and partnership working around this approach, a point which was then noted by the European Commission. It was then arranged for all interventions to be discussed at coordinating group meetings, which in turn caused delays.

Pre-launch of ESIF, the government outlined plans to operate a unit cost model. Many local authority representatives advised that this would be unlikely to be accepted as there was insufficient historical evidence as required by the European Commission. The government finally confirmed that this model was not an option, unfortunately the application process (Strategic Interventions then Operation(s)) was already prepared and being set up within EUMIS, and the reason why EUMIS today is a complicated system to use.

Current spending

Addressing the differing needs of Scotland's regions via EU funding

ESIF stems from Cohesion Policy, which is about a bottom up approach and regional variances are undoubtedly best served at regional level. However too many of the Strategic Interventions are managed by national organisations and there is limited local control. This is not the optimal approach to addressing regional issues, but instead it gives control to national bodies with a focus on national issues. The 2007-13 programme had priority areas, all managed by the Managing Authority, which were not aligned to a national body. This allowed for more flexibility to take account of regional variances.

The European Territorial Cooperation (ETC) programmes (Interreg and URBACT III) are funded by ERDF and allow for councils to develop territorially-focused, place-based projects with

like-minded partners from across the EU, who are experiencing similar challenges at the local level. As of April 2018, the ERDF value to Scotland is €52,560,815 with a total of 98 projects since 2014. 11 Scottish government agencies and 11 Scottish local authorities have received Interreg funding, 5 of these are ESEC member councils. Working with EU partners is ultimately a resource saving, as learning from best practice and developing joint efforts helps to avoid duplication of efforts.

ESIF projects being delivered across our area:

The key ESIF for our member councils are the following:

- The **European Agricultural Fund for Rural Development (EAFRD)** has been essential in terms of farm diversification and rural capacity building. ESEC members are strategic partners on five LEADER Local Action Groups, delivering rural development actions for community and enterprise projects, with a combined budget of approx. £15.54 million, equivalent to 20% of the Scottish LEADER allocation.
- The **European Maritime and Fisheries Fund (EMFF)** targets funding at fisheries communities and has allowed for projects which support diversification and the building of a sustainable future.
- The **European Social Fund (ESF)** has enabled our member councils to build a programme of employability services that combats barriers faced by the most disadvantaged and those furthest from the job market. These are given size and scale due to access to EU funding.
- For **Business Gateway**, local authorities have become Strategic Intervention Leads to deliver additional business services using ERDF through the Business Gateway model. This has allowed local authorities to go beyond the scope of existing Business Gateway contracts to trial new activities. For example, Dundee has been able to recruit HR specialists to provide advice to local businesses seeking to take on employees and to purchase a range of expert help in key areas such as marketing, trade development, digital business etc.

European Territorial Cooperation (Interreg and URBACT III) As previously mentioned, 5 ESEC member councils are involved in ERDF Interreg projects in the 2014-20 programme. These projects include:

- Dundee City Council is the lead on an Interreg North Sea Region (NSR) project, Create Converge, which sees digital skills in areas such as animation, visual effects, virtual reality and games being shared with more traditional businesses to support growth. Partners in Dundee will receive €363,000 of ERDF grant to support their participation in the project. Dundee City Council are also a partner in the recently approved Interreg Europe project Cult-CreaTE which has its kick off meeting in Latvia in early September. The project focuses on the development of cultural and creative tourism.
- Angus Council is one of 10 partners in the Interreg NSR LIKE! project, which is working on innovative solutions for public service delivery. As part of the project, the Angus Health and Social Care Partnership recently piloted a participatory budget event during which citizens in Montrose voted for local projects to address health and well-being priorities. Other pilots across the partnership include council/citizen chatbots, children's services analytics, digital skills for employees, and hackathons for people with disabilities.
- Aberdeen City Council was a partner in the Interreg NSR HyTrEc project. One of the main outputs of the project was the development of a Joint Hydrogen Strategy Framework for the North Sea Region. The council is now involved in the ongoing project HyTrEc2, which aims to create conditions for the development of a Hydrogen Fuel Cell Electric Vehicle

(FCEV) market, and which will promote Scotland as a centre of excellence for fuel cells and range extenders.

- Falkirk Council and Scottish Enterprise are partners in the Interreg NSR project Northern Connections. This project will develop the Grangemouth industrial complex as a 'living lab', a test bed for applying the innovation and business support programmes developed through Northern Connections. Across the partnership the project is worth €5,285,707.
- Fife Council is a partner in the Interreg Europe project, Clipper, which allows similar geographic regions to exchange best practice on how they support SME competitiveness as companies in maritime industries move from traditional to newer opportunities, especially in offshore renewable energies.

Across our 7 local authority areas, we have been highly engaged in the **European Regional Development Fund (ERDF)**, particularly in the low-carbon Strategic Interventions. **The Low Carbon Infrastructure Transition Programme (LCITP)** is accelerating the delivery of transformational low carbon infrastructure projects in Scotland and should be highlighted as an example of a genuinely innovative programme which delivers added-value projects which would struggle to secure funding from domestic sources. Projects in our area include;

- The construction at Grangemouth of the world's very first demonstration facility for Acetone-Butanol-Ethanol (ABE) production from industrial biological residues;
- The creation of an ambitious district heating network, to include a thermal storage and back-up energy centre, in Glenrothes;
- A project in Stirling which involves adding innovative energy generation technology to waste water treatments to deliver affordable, low carbon heat to the community with negligible air quality impact;
- A Dundee and Angus Residual Waste Combined Heat and Power Project which will establish a direct steam supply to a local factory, in turn reducing the consumption of natural gas in the on-site boilers by 84%, leading to an estimated reduction of 7,450 tonnes of CO₂ annually.
- A Low Carbon District Energy Hub in Dundee whereby heat will be distributed to buildings on the new Regional Performance Centre for Sport via a network of flow and return pipes below ground. In line with the Scottish Government's renewable energy targets, the energy hub will be able to generate 100% of its electrical demand from renewables.

The **Low Carbon Travel and Transport (LCTT)** programme funds the development of active travel and low carbon transport hubs by supporting projects which encourage greater every day journeys to be taken by walking, cycling and public transport as well as increasing the proportion of ultra-low emission vehicles on Scotland's roads. Projects in our area include;

- The Falkirk Active Travel Hub, which provides access to bikes, e-bikes and maintenance equipment in order to support the local community to make more of their everyday journeys by walking, cycling or using more sustainable transport. It also funded a low-carbon vehicle hub at Falkirk Community Stadium.
- A low carbon transport hub at the Broxden Park and Ride site in Perth, which includes a hydrogen refuelling station, the expansion of EV charge points and a solar PV canopy to hold on-site generated energy to support the EV charging stations;
- The Dundee Travel Hub in the centre of Dundee's major new civic space at the city's waterfront, to encourage both locals and visitors to engage in active travel. It will also offer bike hire, bike storage, community outreach activities, and the promotion of car clubs and electric vehicles.

- The 'Bridge of Don Active Travel Hub' project in Aberdeen which will include a communal bike repair workshop, cycle training for children and adults, an outdoor training track and accessibility bike use. The project aims to increase the number of journeys made by sustainable transport by the 20,000 residents of the Bridge of Don area.

Issues experienced by councils in delivering ESIF projects

- Portfolio managers have often been changed leading to inconsistencies. There have also been inconsistencies in messages coming from portfolio managers who are managing the same Strategic Intervention. For example, Business Gateway leads have been given conflicting advice by their different portfolio managers. A knowledgeable, quick to respond portfolio manager can make a very positive impact to the processes and is very much appreciated by council officers.
- Communication from the Scottish government has been patchy in terms of providing key information and there have been ongoing issues with people missing off mailing lists, despite requests from officers to be added. Much of the communication is based on updates to websites and information posted on EUMIS which is not always the most direct approach.
- Issues around communication were also experienced by our members for ESF, with council officers responsible for the programme receiving important information such as national rules and deadlines for ESF phase 2 second-hand, despite them being the named officer for ESF operations.
- An example of breakdown in communication – One of our member councils submitted applications for their operational activities in November 2015 and followed up with an email on 18 January 2016 to confirm these had been received, as there had been no acknowledgement. On 21 January the officer was informed that there had been a delay in processing the operational applications and notification of this had been posted on the website (18 December). The preference would have been for this delay to be communicated via email. The council officer was then informed by email on 2 March that additional information was required by 4 March in order to meet the just announced deadline of 10 March. Such deadlines are practically impossible and required the council officer to postpone other pieces of work and cancel meetings.
- The new Lead Partner model which was introduced has shifted the burden of risk from the Managing Authority to the Lead Partners. Lead Partners are required to complete a pre-verification check to ensure that the Managing Authority is happy with all of the processes. However, should there later be an irregularity, it will be the Lead Partner who is responsible and not the Managing Authority. This has reduced the purpose of the pre-verification check to a tick box exercise.
- Deadlines always seem to be on the Strategic Intervention leads and not the Scottish Government. During the recent N+3 issue councils were being pressurised to claim even though the EUMIS system hadn't been up and running properly until late last year (for uploading client data).
- The requirement for staff to spend 100% of their working time on ESIF activities meant that councils were unable to draw down valuable ERDF or ESF on staff who were often a key match funding resource. It also meant that local authorities were expected to pick up compliance and monitoring issues (often burdensome) without any funding support, such as Technical Assistance, being offered. We are pleased to see that this rigidity has been removed for phase 2 of ESIF, although the 40% requirement still means that some projects will continue to deliver monitoring and compliance without receiving financial support for doing so.

- Councils were asked to make changes to Strategic Interventions after they had been submitted and once it was decided that the unit/simplified cost model was not going to work. Criteria for measuring outcomes and outputs was changed in spring 2016 which impacted on the potential to achieve the targets which had been included in Operational Applications for Business Gateway. This led to tenders being folded and re-advertised, further delaying the process.
- Delays in approving interventions and operations increased the risk for local authorities, who as Lead Partners in certain Strategic Interventions had to proceed with delivery in advance of approval. The delays meant that two years were lost for delivering operations. In other cases local authorities had to delay procurement and recruitment activities which in turn created adverse impacts on the delivery of key services. At the time, it was noted in local authority discussions that this could lead to the Scottish programmes failing to meet their N+3 targets, which unfortunately has proven to be the case, amounting to a loss of €22m.
- Regarding reporting, there are different systems used for ESF/ERDF (EUMIS), LEADER (LARCS) and the EMFF, and with the key transnational programmes with which local authorities engage, namely INTERREG and Erasmus+, there are again different systems. Our members report that some of these systems work better than others. The EMFF IT system which is managed by Marine Scotland has often been cited as an example of one which works very well. Experiences with EUMIS and LARCS have not been as favourable. Differing systems also cause confusion for local authority finance departments, who do not always understand the difference across or within EU programmes.
- The EUMIS system was established to work with the abandoned unit cost model and therefore is not as functional as it could have been. The training on EUMIS was limited, with little actual hands on training available. For example, several officers attended a presentation on how to use EUMIS the day of the Brexit vote result, when everyone's minds were effectively elsewhere, and this is the only 'training' that has been provided. Members of staff who have joined council funding or finance teams since 2016 have had no real opportunity to undertake the training which would support in getting to grips with this new and complex system. Furthermore, delays in ensuring that EUMIS worked effectively led to delays in projects being able to claim.
- The delays in the last programme around the process of auditing tenders and claims (councils were still receiving Article 60b and 62b audits in 2017) caused issues that could have been avoided. The massive catching-up exercise to be done on Articles 60b and 62 led to multiple audits overlapping each other within local authorities and while EU council officers were also trying to deal with new applications and the development of new strategic interventions.
- There were many challenges with clarifying the content of the Participant Guidance, while attempting to implement the guidance locally when training frontline delivery staff. This was a fundamental change for delivery staff and took at least 18 months before councils and delivery partners were at a point where the Participant Guidance was fully implemented and understood. A range of changes were required to standard documentation (registration forms etc.) as well as local Management Information systems in an attempt to provide clarity to delivery staff and maintain compliance.
- Lead partners continue to receive updates on eligibility criteria and outcomes, even though the programme is now 3 years into its delivery. These have the potential to materially impact on delivery to date and future delivery.
- Many of the current Strategic Intervention leads operate at a national level and have limited experience of delivering and managing structural funds, which has led to issues for local authorities as delivery agents – each of the Strategic Intervention leads appears

to have their own application and assessment process with different applications timescales and engagement approaches. This makes it hard for local authorities to engage effectively and has often seen elements of funding targeted in limited areas.

- This mixed approach to the allocation of structural funds (direct pots managed by local authorities, various pots that can be applied for by local authorities and others and others that are managed nationally by organisations such as SDS and Scottish Enterprise) leads to confusion and potentially to missed opportunities.

Recommendations on improving the evaluation process

In order to improve the evaluation process, an enhanced harmonised IT system should be designed, thoroughly road-tested and in place by the conclusion of the ESIF and for the start date of the replacement funding framework. At a recent meeting between the European Commission and the ESEC Policy Board and Officer Group (March 2018), the Commission acknowledged the need to achieve results "in a simple, fast, flexible and cost-effective manner" and so for its next budget period 2021-28, it will seek to adopt a single rule book and harmonised reporting systems for its various funding programmes. Assuming that UK organisations will still be able to participate in certain transnational funding programmes, we would like to suggest that the Scottish government maintain close links with the European Commission as it designs its future processes for reporting, to ensure that the domestic and transnational systems do not greatly diverge or cause conflict.

Future programmes

The UK Shared Prosperity Fund – the proposed replacement for the ESIF

The UK government has proposed to replace ESIF with the UK Shared Prosperity Fund (UKSPF). We see this as a key opportunity for a fresh start, by taking the good from previous programmes and by avoiding the mistakes. It is an opportunity to streamline and simplify administrative and audit procedures, and must be based on opportunity as well as need as is the case with the current ESIF.

The following principles should be incorporated into the UKSPF:

- The allocation for Scotland should be at least equal in value to the current allocation of ESIF 2014-2020, and should not be tied to the Barnett Formula, addressing widening disparities in prosperity across the UK NUTS regions .
- The UKSPF should allow for maximise integration with other funding streams for local growth. As a domestic fund coming from the UK government, this will allow it to be matched with EU funding programmes, such as Erasmus+ and Horizon2020. Potential beneficiaries and projects would also benefit from a higher intervention rate from UKSPF.
- UKSPF provides an opportunity for a reduction in bureaucracy and a more simplified approach to financial controls and project management.
- The seven year multi-annual framework of ESIF which extends beyond parliamentary terms remains crucial to enable real structural change to be planned and programmed. However, there is a recognised need to ensure that we can be flexible in our approaches, to minimise the impact of external factors.
- A stronger requirement at local/regional level for all sectors (education, local authority, third sector) to align efforts thus avoiding the over-targeting of certain groups and the duplication of activities.
- Regional Policy needs to be just that – developed at a local and regional level with the potential to consider the difference between and within Scotland's regions.
- Match funding levels need to be considered. There is an opportunity to increase the level of support for projects during a time when finding match funding is becoming harder for local authorities or to be more creative/innovative with the funding that can be used as

match For example, at the present time local authority business competitiveness projects cannot use the element of funding provided to Business Gateway for start-ups as match. This is a missed opportunity to draw down additional support to help companies to start and grow. There is a need to provide additional resources to match the scale of the challenge.

- There should still be a clear 'Scottish Chapter' in UKSPF, which, for ESF, facilitates integration with public services, and importantly, through its specification and payment model, integration with the new Fair Start National Programme and other national programmes.
- More flexibility in the targeting of participants, now that Fair Start targets largely the same target groups as ESF, and more flexibility to be creative around job creation (e.g. being less prescriptive about employer eligibility for wage subsidies, Modern Apprentices, etc.) This should also address the potential need to support the development of higher level skills, particularly as EU migration decreases.
- The UK Shared Prosperity Fund should become fully operational at the point at which the UK leaves the EU/ends access to current Structural Funds programmes so that there is no hiatus in funding to the regions.
- The UK Industrial Strategy is not a substitute for effective regional policy, developed and implemented at a local level. The UK Government's emphasis on R&D (and indeed the university sector's lobbying to become key delivery agents of the industrial strategy) and housing in the Industrial Strategy could mean that the already overheated south east of England becomes the main beneficiary.

Potential opportunities and risks presented by any replacement fund or programme for ESIFs

In several written questions from MPs to the relevant UK government ministers, the UK government has said it will consult with the Scottish government and the other devolved administrations on the design of the UKSPF in early 2018, recognising their expertise in managing European funding. As of the end of March, Michael Russell MSP, Minister for UK Negotiations on Scotland's Place in Europe, said that this consultation had not yet taken place, and indeed he was concerned there would be no consultation at all. This would be a missed opportunity to create a fund which is flexible and responsive to local and community needs, and we therefore urge the Scottish government to strongly insist on a co-design role in the fund. Any delays in the consultation of the UKSPF (noting that the original consultation was supposed to kick-off in September 2017) would risk a gap in funding to communities.

Regarding how the UKSPF allocations will be identified, it should be about need and opportunity, not just focusing at a NUTS 2 level as the current ESIF does, or relying solely on levels of GVA. SIMD data should also be taken into account when making these allocation decisions, alongside consideration of smart specialisation, key sectors in local economies and key opportunities for future growth.

There is an opportunity to be more closely aligned with Scottish government policy drivers; Inclusive Growth, integrated public services and alignment with City Deals. Also, through the delegation of the welfare system, there is an opportunity for Scotland to achieve better alignment and wrap around with the national Fair Start Programme. There is also the opportunity for flexibility to address local and regional variations and needs. This requires the equivalent of the Scottish Chapter to be present within the UKSPF and/or a separate programme for Scotland.

Local authorities are the level of government most closely attuned and aligned to the needs of communities and so we call on both the UK and Scottish governments to consult closely with councils in a transparent, structured manner, especially during the design of the UK Shared Prosperity Fund.



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