

The Highland Council

Highland Council – 26 June 2014

Agenda Item	18
Report No	HC/13/14

EUROPEAN STRUCTURAL INVESTMENT FUNDS REGIONAL DEVELOPMENT AND SOCIAL FUND PROGRAMMES SCOTLAND 2014-20

Report by Director of Development & Infrastructure

Summary

This report updates Members on current state of play regarding the development of the European Regional Development and Social Funds Programmes in Scotland for the 2014-20 programming period. The report also includes, for homologation the Council's response to the Scottish Government consultation on the two above Funds. The ten day consultation closed on 16 June.

Members are asked to:

- note the content of the report and the potential that exists for the Council to gain financially from engaging in the delivery of the Regional Development and Social Fund Programmes;
- request a further update as to the implications of the Council being a lead body in the delivery of these E.U. Funds; and
- homologate the Council's response to the recent Scottish Government consultation on these two Funds.

1 Background

- 1.1 As Members will recall EU regional funding or European Structural Investment Funds (ESIF) as they are now known are agreed in terms of seven year funding periods. The budget for the 2014-20 period was approved in 2013 and this included the Highlands & Islands being as a Transition category of region. Budgetary approval enabled the governing regulations to be finalised, which in turn facilitated the development of the programmes that will deliver the EU funded activity.
- 1.2 Regarding the budget, the UK proposed a mechanism that would limit the reductions in funding to regions. This resulted in the Highlands & Islands being allocated €174M compared to the €120M expected across the Regional Development (ERDF) and Social (ESF) Funds. Funding for the Rural Development and Fisheries Funds will be addressed via a separate and future report.

- 1.3 A number of English authorities launched a judicial review of the Government's allocation model claiming that it penalised Transition regions in England. The review was rejected by the Courts and the finding on the failure to adequately implement an environmental assessment will be reported on during the summer.
- 1.4 The €174M allocated by the Government has now been recalculated to reflect 2014 prices which has provided an uplift of €18M giving the region €192M ERDF and ESF for the 2014-20 period.
- 1.5 The Council, as part of the Highlands & Islands European Partnership (HIEP), sought to ensure that the programmes covering the Transition funds allocated to the Highlands & Islands would be developed and delivered within the region. The preferred model for this was an Integrated Territorial Investment (ITI). This would, as the name implies, provide a means for all the European Funds that were relevant to the region, to be harnessed to develop the region in an integrated manner and to minimise duplication of funding, activity overlap and deliver synergy.

2 Partnership Agreement and Programme Development

- 2.1 The overall strategic direction of the funds, what the money will be spent on and how they will be delivered is set out in a Partnership Agreement between the Member State and the European Commission. The UK Partnership Agreement was submitted to the Commission on 17 April without any consultation with partners nor reference to the Monitoring Committee that will be charged with overseeing delivery.
- 2.2 The Partnership Agreement ruled out the possibility of an ITI for the Highlands & Islands on the basis that the funds lacked critical mass to add value and would detract from alignment with national strategic approaches.
- 2.3 However, it has been noted that it would have been difficult for the Government to support an integrated approach to programme development and delivery in the Highlands & Islands when there is no evidence of an integrated approach at the pan Scottish level.
- 2.4 Current proposals envisage that each of the EU funds (regional development, social, rural, LEADER and fisheries) will have their own Programmes and Management Committees.
- 2.5 HIEP sought assurances from the Scottish Government that the regional dimension would not be lost in programme development and received a written assurance from the Deputy First Minister that the Scottish Government was content to accept the principles proposed by HIEP that the programmes would:
 - reflect regional circumstances;
 - be developed and delivered locally;
 - allow funding allocation through a regional decision making body; and
 - be delivered by a regional body with clear reporting lines to the Joint

Programme Monitoring Committee. The Director of Development and Infrastructure will sit on this national body.

2.6 These principles are being met by the Government via:

- instructions from Government to the lead bodies of each of the Strategic Interventions (SI's) to engage with the Highlands & Islands to ensure that the circumstances of the region are reflected in the SI's. The European Funds will be delivered via Operational Programmes which will be based around a suite of 12 Strategic Interventions which will comprise packages of activity. The Strategic Interventions are listed at Appendix 1;
- regular meetings between the Government and the Highlands & Islands at both officer and political levels;
- the establishment of a Highlands & Islands Territorial Committee to oversee and monitor the delivery of the Highlands & Islands Transition Funds. The role and remit of this Committee and how it will interact with the other Committees is currently the subject of debate with Government. However, the Committee will decide on the activities to be funded and the allocation of the Transition funds;
- the creation of a working group to agree the principles that will underpin the delivery of activity by local Councils; and
- work with stakeholders to define costing methodologies which will be structured to reflect differences in population and geography

2.7 To enable the Programmes to be up and running as soon as possible the Government wishes to submit the Operational Programmes to the European Commission by the end of June. The Commission has three months to respond to the submitted Programmes and this submission date could see a Programme start date of October. To this end the Government launched a ten day consultation period which closed on 16 June.

2.8 The consultation focusses on three questions and is based on incomplete programme documents. The Council submission was submitted to meet the 16 June deadline and is presented here for homologation. The Council response is attached at Appendix 2.

3 Delivery

3.1 The Government envisages that activity will be delivered via a series of lead bodies that will be expected to assume full legal and financial responsibility for the funds allocated to them. The Council could assume lead body status for a number of interventions and currently Business Competitiveness and Employability have been identified as suitable areas for this. Lead bodies will have a degree of leeway in how activity is delivered under their leadership.

3.2 As noted there will be potential legal and financial implications in being a lead partner. These focus mainly in the repayment of monies in the case of failure to deliver, ineligible expenditure and poor management. These issues are currently the subject of discussion with Government as noted at 2.6 above.

4 Benefits to the Council

4.1 The extent to which Council activities could be enhanced financially from the 2014-20 ESI funds cannot be quantified at this time. A number of the Strategic Interventions remain to be fully developed and as such the activities that will be supported remains unclear. However the Council activities could benefit from funds delivered via the following Interventions:

- business competitiveness - support for Business Gateway activities;
- enhanced employability pipelines – employability services;
- green infrastructure – path networks;
- low carbon transport- active and green travel hubs;
- low carbon infrastructure;
- resource efficiency;
- Scotland’s 8th City; and
- social Inclusion and poverty - addressing barriers to employability, child care provision, financial advice.

5 Implications

5.1 Resource – there are no resource implications arising from this report. However, the Council activities could benefit substantially from engaging in the delivery of the 2014-20 ERDF and ESF, and the identification of match Council funding will be required.

5.2 Legal – there may be legal implications arising from the Council adopting a lead role in the delivery of future ESI funds. These risks will be subject of discussion with the Government over the summer months.

5.3 Climate - the 2014-20 ESI funds will support activities that will seek to reduce carbon use and improve carbon efficiency in the fields of business processes, resource utilisation and transport.

5.4 Risk - Activities undertaken by the Council will be subject to risk assessment.

5.5 Gaelic – The Operational Programmes will be summarised in Gaelic.

5.6 Rural Implications – The 2014-20 ESI funds will benefit rural areas notably through interventions like the LEADER Programme.

Recommendation

Members are asked to:

- note the content of the report and the potential that exists for the Council to gain financially from engaging in the delivery of the Regional Development and Social Fund Programmes;
- request a further update as to the implications of the Council being a lead body in the delivery of these E.U. Funds; and
- homologate the Council's response to the recent Scottish Government consultation on these two Funds.

Designation: Principal European Officer

Date: 12 June 2014

Author: Gordon Summers

Background Papers: Draft ESF 2014-20 Operational Programme

Draft ERDF 2014-20 Operational Programme

**EUROPEAN STRUCTURAL INVESTMENT FUNDS
EUROPEAN REGIONAL DEVELOPMENT & SOCIAL FUND
STRATEGIC INVESTMENTS**

APPENDIX 1.

- Developing Scotland's Workforce
- Business Competiveness
- Innovation
- Next Generation Broadband
- Scotland's 8th City - the smart city
- Financial Engineering Instruments
- Low Carbon Travel & Transport
- Low Carbon Infrastructure Fund
- Resource Efficient Circular Economy
- Enhanced Employability Pipelines & Youth employment
- Poverty & Social Inclusion and
- Green Infrastructure.

CONSULTATION ON THE EUROPEAN STRUCTURAL FUNDS COMMENTS FROM THE HIGHLAND COUNCIL

The Highland Council in its own right and as part of the Highlands & Islands European Partnership (HIEP) reserves the right to make further comments in future dialogue with the Scottish Government in respect of the following:

- The financial allocations made from the Highlands & Islands Transition funding allocation;
- The specific content of actions to be supported via the Strategic Interventions and on the nature of their delivery; and
- The Terms of Reference of the Highlands & Islands Territorial Committee in relation to its interaction with the other proposed governance structures.

General points

There is a lack of specific reference to the Highlands & Islands. The Council appreciates that the documents are pan Scottish but the territorial dimension and the differing approaches to capitalising on the development opportunities and addressing the challenges in Transition regions such as the Highlands & Islands are highlighted in both Programme documents. However, the differences go beyond Broadband, and is possibly best set out in terms of characteristics of Article 174 of the Treaty. The capacity within the Programmes to tailor, interventions to meet these differences is also highlighted and this should be supported by in the supporting figures and text.

The Council is disappointed at the apparent lack to integration across the Programmes. The allocation of £20M for small rural business support to LEADER signifies the failure to deliver integration. LEADER in Highland may not be the most effective means of delivery and this would have been better placed within the Business Competitiveness SI.

Given the importance of the cultural and natural heritage to employment and wealth creation in the Highlands & Islands, the lack of prominence given to this sector is disappointing. However, the Council appreciates that tourism businesses will be eligible for support via Business Competitiveness.

The Highland Council appreciates the work that has been carried out by the Scottish Government's Structural Funds Division in the preparation of the ERDF and ESF Operational Programmes but equally notes the incomplete nature of the documents that are the subject of this consultation. This, allied to the format dictated by the European Commission, has made responding to the specific issues highlighted in the consultation difficult.

Comments on the questions posed.

Q1. Is the need for intervention and the intended result clear for each priority axis clearly described ?- yes but the information given in support of the priority axes is limited and spread throughout the documents. There is

greater coverage of the supporting logic and the results intended in the Strategic Intervention specific fiches that have been developed in support of the Operational Programmes.

Q2. Do the funding allocations for each priority axis reflect the balance and scale of the various needs, the ambitions for the structural change, and the reality of what might be achieved within the size of the programmes? – The Council is aware of the differing stages of development of the various Strategic Interventions. In light of this and the resulting lack of indicators and outputs expected that balance of funding allocation cannot be judged accurately.

However, the Council is aware of the strong desire across the Highlands & Islands to see the Programmes launched and is content to support the allocations as presented with the proviso that the allocations concerning the Highlands & Islands Transition funds be taken into account via separate submission.

The Council would also like to highlight the positive role the mid-term evaluation will have in more accurately allocating the ESI monies to the Strategic Interventions.

Q3. Do you think the monitoring and evaluation processes suggested for mainstreaming horizontal themes are appropriate?– moves to mainstream the horizontal themes have met with varying degrees of success over the past three programming periods. The Council is supportive of the proposals made but would recommend that these be evaluated in advance of the mid-term evaluation so that the findings can be integrated into that evaluation.

The Council also notes the proposal for a greater use of action plans to deliver mainstreaming and its monitoring. The Council would urge that the inclusion of this in any approval be accompanied by the resources to adequately deliver and evaluate any action plans.

Fund specific comments:

European Regional Development Fund

Whilst it is accepted that the Operating Programme must concentrate on a “growth” agenda it is felt that some of the terminology used in the draft OP presents too much of an emphasis on “high” growth companies (with little or no definition of what that actually means). This is at odds with the Scottish Chapter which states in relation to the Transition area of the Highlands and Islands;

“High growth companies and larger companies account for a disproportionate share of employment opportunities, and a focus for the ERDF is therefore to support more small companies to become medium-sized and long-term sustainable companies.”

Page 6, 'Delivery structure will ensure relevant local projects can be tailored to different regional circumstance' - It is suggested that 'particularly in the Transition area of the Highlands and Islands' be added.

Page 8, Smart Growth, para 2 - Why is the University of the Highlands & Islands not mentioned by name?

Page 10, 'Steady state with limited capacity for growth' -It is suggested that the addition of "encouraging more micro and small businesses to become growth active is particularly important in the Transition area of the Highlands and Islands with its higher than average proportions of micro businesses, so ERDF should provide support at this level."

Page 11, para, 5 Scotland's economy - Add sentence at end..."This is especially true in the Transition area of the Highlands & Islands".

Page 12, 1st bullet point, Entrepreneurialism - Add the following, "there is a need to expand and strengthen business and investor networks in the Highlands & Islands transition area".

Page 12, last para, "As with innovation..." - "The ERDF will therefore focus exclusively on companies which are judged to have significant growth potential within five years of first engagement with one of the innovation or business development agencies".- The word "exclusively" is inappropriate. ERDF is meant to be 'Supporting the capacity of SMEs to engage in growth in regional, national and international markets and in innovation processes' and so in the Transition area where small and micro businesses make a collectively significant contribution to the economy, ERDF should also be directed to micro and small businesses with the potential to grow and create employment, to help them realise their potential.

Page 12- Different definitions of "growth potential" - It is important to avoid a rigid definition of "growth potential". The definition in the H&I is different from lowland Scotland and needs to include social enterprises.

Page 13, 1st para - "next generation of high growth companies". Too much emphasis is placed on existing account management process. The key to successful use of ERDF will be to develop the businesses which are not yet at growth pipeline stage.

Page 13, para 2 - This "agglomeration" model should be extended to the rural areas and UHI should be cited as an example of good practice in clustering remote learning centres etc. to provide the same economies of scale found in an urban setting. This is a strong argument for rural SMEs to share practice, resources, and collaborate through tendering etc. with the long held Objective 1 ambition to "ameliorate the peripherality of the region".

Page 24, Enhancing the Competitiveness of SME's – there is a need to include reference to business or economic infrastructure to support site specific development where market failure can be evidenced.

Pages 62 & 66 - the mention of low carbon energy production is welcome but this needs to be fully reflected in the low carbon investment priority.

European Social Fund

Page 19 – there is a need for a stronger statement of territorial challenges in the transition region and the Council would suggest the following additions:

- “The low relative GDP in the Highlands and Islands Transition region is due to a range of factors which require a bespoke approach to economic and community development. They include:
 - Employment - The Highlands and Islands suffers the problems of under-employment, part-time and pluri-employment as well as seasonality of employment.
 - on-going out-migration of young people as a result of limited education and employment opportunities.
 - Skills - Access to education and training across a remote and sparsely populated region remains a key priority for the Highlands and Islands in this area.
 - Connectivity - The Highlands and Islands is characterised by complex, mountainous and insular geography and sparse population (population density is 11 km² compared to 127 km² in the rest of Scotland), which combined, are a challenge for physical and digital connectivity. Over 20% of the region’s population live on over 90 inhabited islands. As a result, businesses and individuals have to contend with higher costs of accessing services and doing business.
 - Business Base - The Highlands and Islands economy is dominated by small and micro businesses – over 60% of the workforce is employed in small enterprises.
 - Innovation - The Highlands and Islands is characterised by a modest number of innovation active businesses and relatively low spend on research and development, exacerbated by the historic lack of a university based within the region.
 - Social Inclusion / Poverty - Individuals and communities across the region can be at risk of social exclusion as a result of poor access to services, employment and education opportunities.”

- Make reference to H&I Regional Skills Investment Plan as a strategic guiding document.

Page 22 & 24 - the mention of out migration of young people is welcome as it remains an issue at a region wide basis, not just the Western Isles. The solution is not just retention of our young people but in attracting them back from study elsewhere, and to attract talented people from elsewhere to live work and study in the Highlands & Islands.