

THE HIGHLAND COUNCIL

3 SEPTEMBER 2015

Agenda Item	12
Report No	HC/35/15

EUROPEAN STRUCTURAL INVESTMENT FUNDS - ENGAGEMENT WITH THE SCOTTISH GOVERNMENT

Report by Director of Development & Infrastructure.

Summary

This report provides an update on current issues relating to EU Structural Investment Funds. Approval is sought for the approach currently being adopted by the Council in addressing its concerns over the delivery of the European Structural Investment Funds in the region via the Highlands and Islands European Partnership (HIEP).

1 Introduction

1.1 European budgets are set for periods of seven years. The current period runs from 2014 -20. The Council, along with partners in the region, Scotland, the UK and across Europe, fought a successful lobbying campaign to retain a Transition category in the architecture of regional funding. This meant that the Highlands & Islands received more money than it would have done if such a category had been dropped by the European Commission and Parliament. This, along with a favourable allocation model within the UK, meant that the Highlands & Islands received £160m (€193m) European Regional Development and European Social Fund monies for 2014-20. This is particularly good news as a cut of some 30% was expected and is actually slightly more than the equivalent 2007-13 allocation.

2. The European Regional Development and Social Fund Programmes

- 2.1 A report on delivery to date of the European Structural Investment Funds in the Highlands & Islands was presented to Planning, Development & Infrastructure Committee on 19 August, the details of which can be accessed via http://www.highland.gov.uk/download/meetings/id/68692/item_12_european_engagement.
- 2.2 Programme development has been slow which is disappointing given the Scottish Government has been working on this since 2011. For example, the Council submitted its application for Business Competitiveness funding on 9 January 2015 and this remains to be approved. Additional information was requested on 8 July with a suggestion that the submission would have to be re-assessed to take account of Commission concerns over the objectivity of the Government led appraisal process.
- 2.3 Concerns over the delay in approving applications and the subsequent delivery of the programmes and the negative impact this is having on the development of the region were raised at the last meeting of the Convention of the Highlands & Islands

on 1 June. This led to a meeting being offered to Council Leaders by Keith Brown MSP, Cabinet Secretary for Infrastructure, Investment and Cities on 11 August. This meeting request crossed with a request for such a meeting from the Highlands & Islands European Partnership. The Council Leader is the co-Chair of the Partnership and is the body that has led the way in lobbying for EU regional funding for the region.

2.4 The meeting focussed on the following main areas:

- delays in application approval;
- the apparent side-lining by the Scottish Government of the Highlands & Islands Territorial Committee (HITC); and
- the lack of clarity concerning the guidance and rules that govern delivery.

3. Outcomes from the meeting.

3.1 Delays:

- more applications had been received than was initially envisaged and that this had slowed up the appraisal process;
- the European Commission had raised concerns over the rigour of the proposed appraisal process and had requested that applications be re-assessed to ensure fewer errors in the future. This would reduce the number and need for financial interruptions as reported in the Press & Journal on Friday 21 August; and
- a commitment was given that applications for Employability funding would be approved within ten days of the meeting and that the Business Competitiveness applications that are to be re-assessed would be decided by mid September.

3.2 In considering the above, members should note:

- Government was advised in 2014 that due to the lack of clarity surrounding the roles and responsibilities of bodies in receipt of EU funds, local authorities could not submit applications in partnership, so the small number of applications would not be realised;
- Government was advised in 2013 that the absence of external input to the application appraisal would not satisfy the European Commission and that stability and clarity as what would be expected of applicants in terms of claiming grant and in meeting audits requirements would greatly assist to reduce errors in project delivery;
- Government funded 'lessons learned' exercises involving stakeholders should be undertaken to avoid the issues of the past. Given the lack of stakeholder involvement, a management system and clear guidance, it would appear that this work has been overlooked; and
- to date, the employability applications have not been approved.

3.3 Governance

The Cabinet Secretary affirmed that the Government was committed to a positive role for the Highlands & Islands Territorial Committee but invited partners to submit proposals for any changes they wished to see to the role and remit of the Committee.

3.4 This was discussed at the Board meeting of the Highlands & Islands European Partnership on Monday 24 August where it was confirmed that no major changes were required but that the Government implement the current terms of reference to meet the expectations of the Committee as set out in the paper which established the terms of reference as follows: “The *HITC will monitor the impact of the funds in the territorial region and the suitability of tailoring in the national approaches to territorial needs. It will promote co-ordination between strategic interventions and lead partners in the transition region. It will recommend changes to strategic interventions or operations where performance of evaluation suggests that the transition region is not adequately served*”

3.5 Clarity of National Rules

To allow for debate on the substantive issues above, a list of specific issues was circulated to Government at the meeting. This list is attached as Appendix 1. It was noted that these are to be addressed at the next meeting of the HITC on 9 September.

4 Next Steps

4.1 The following was agreed by the HIEP Board:

- the Cabinet Secretary is requested to ensure that the following are addressed as agenda items at the 9 September HITC:
 - how the Government intends to make the role of the HITC meaningful;
 - an update as to the delays on application approval and dates of expected decision;
 - responses be given to the issues raised concerning the lack of clarity over national rules;
 - the allocation of Transition funds to activities without prior reference to the HITC; and
 - how the Government expects the programmes to meet financial spend targets in 2016 to avoid monies being lost to the programmes and to the Highlands & Islands.
- A letter is to be written to the Cabinet Secretary seeking details as to the measures the Government intend putting in place to ensure that financial interruptions do not occur in the future and how these can be implemented so as not hinder the delivery of the current programmes. Further that this be addressed at the Monitoring Committee meeting on 8 September.

5. Implications

5.1 Resource – there is potential for the Commission to reclaim funding if delivery and financial targets are not met which would lead to a loss of income to the Highlands and Islands.

5.2 Risk – there is a reputational risk for the Scottish Government and other local partners in Scotland if the European Commission loses confidence in the ability of applicants to manage EU funds appropriately.

- 5.3 Equality – EU funding will be used to grow the regional economy and enhance the job prospects of groups such as long term unemployed and those who face multiple disadvantage.
- 5.4 Climate change/Carbon Clever, rural, legal, and Gaelic – there are no implications arising from this report.

Recommendation

Members are asked to note the contents of this report and to approve the Council's approach to raising its concerns with Government over the delivery of the European Structural Investment Funds in the Highlands via the Highlands & Islands European Partnership (HIEP) and its membership of the Highlands & Islands Territorial Committee (HITC). The Council will be represented on both of these Committees by the Leader who is also the chair of HIEP.

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**EUROPEAN STRUCTURAL INVESTMENT FUND PROGRAMMES
ISSUES RAISED BY THE HIGHLANDS & ISLANDS EUROPEAN PARTNERSHIP.**

ELIGIBLE ACTIVITIES

Clarity is sought as to whether existing activity is eligible or only new activity.

COST METHODOLOGIES

- Will unit costs be used during the programme period?
- If so when will this be decided?
- Which of the proposed direct staff costs will be eligible for use for which activity?
- What back up information will be required for the different models?

AUDIT

- What will be the audit regime for the Strategic Interventions?
- What supporting activities and what evidence will be required to meet audit requirements? (for outputs and financial costs).
- Will there be pre delivery systems audits for lead bodies?
- Will lead bodies be expected to audit the activities of delivery bodies?

LEGAL AND FINANCIAL RESPONSIBILITIES OF LEAD BODIES

- What will be the roles and responsibilities of lead bodies in delivering the Strategic Interventions?
- When will this be notified to lead bodies?
- Will lead bodies be responsible for auditing the activities of delivery agents?
- Will lead bodies be responsible for programme wide and extrapolated programme errors?

FUNDING

- Why can the Scottish Government and bodies such as SNH and Zero Waste Scotland seek match funding from partners but local authorities cannot?
- Why can partnership funding models not be used?

LACK OF APPROVALS AND THEREFORE SPEND.

The delay in approving Strategic Interventions is addressed elsewhere.

EUMIS AND APPLICATIONS

- When will this new management system be operational?
- What steps are in place to allow EUMIS to interface with the IT systems of lead bodies allowing for data transfer?

GOVERNANCE

Members raised concerns over the:

- need to circulate papers at least 10 days prior to meetings
- brevity of the papers and the lack of need for debate or recommendations;
- lack of involvement in the assessment of the Strategic Interventions and activity applications;
- uncertainty as to whether the Highlands & Islands will be reported separately from the remainder of Scotland;
- lack of moves to deliver integration between the Funds;
- lack of operational links with the Scottish Rural Development and the European Marine & Fisheries Funds in Scotland.