

Agenda Item	
Report No	

## HIGHLAND COUNCIL

**Committee:** The Highland Council

**Date:** 31 October 2019

**Report Title:** European Funding

**Report By:** Executive Chief Officer Transformation and Economy

### 1. Purpose/Executive Summary

- 1.1 This Report presents background information regarding the EU funding available to Highland and how it is being used. It gives an indication of the range of Council led activity currently under way and how further activity might be possible with EU funding support if this can be sourced.

### 2. Recommendations

- 2.1 Members are asked to:
- i. note the current situation with EU funds; and
  - ii. note the current situation regarding performance and the potential reallocation of funds and that the Council is continuing to lobby the Scottish Government on this issue.

### 3. Implications

- 3.1 There are no resource implications arising directly from this report. However, the access to or lack of access to EU funding to deliver some Council activities does have resource implications for the Council.
- 3.2 There are no legal implications arising from this report
- 3.3 There are no Community (Equality, Poverty and Rural) implications arising directly from this report. However, the Council's access to EU funds has primarily been used to try and address issues such as employability and poverty so the level of access the Council has to these funds today and in the future will have implications for how effectively the Council might address such issues.
- 3.4 There are no Climate Change / Carbon Clever implications arising directly from this

report but as EU funds have previously been used to support projects that tackle climate change, the level of access the Council has to these funds in future will have implications for how effectively the Council might address such issues.

3.5 There are no risk implications arising directly from this report. However, lack of access to EU funding could create a degree of risk to the continued delivery of some Council activities or limit the opportunity to offer further services in future.

3.6 There are no Gaelic implications arising from this report

## **4. Background**

4.1 The Highland area, and the Council itself, benefit from European Structural Investment Fund (ESIF) programmes. Highland gains some benefit from a number of national programmes but more significantly is the beneficiary of a number of programmes delivered at a Highland or Highlands and Islands level. Due to the economic circumstances of the area the Highlands & Islands are classed as a “Transition Area” and programmes in such areas commonly see a greater level of financial support than is offered in other parts of Scotland. These ESIF programmes comprise the:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- European Agriculture Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

4.2 The majority of EAFRD funds are used to make direct payments to agricultural businesses but one element is used to deliver community development projects in rural areas - the Highland LEADER Programme. This programme worth £8.8m was due to run to 31 December 2019 so with the exception of some minor reallocations the programme can now be considered to be complete as far as new applications are concerned. Similarly, the EMFF funds (which total £1m between Moray & Highland and support diversification in fishing communities) are nearing completion. This report therefore focusses on the two funds that are continuing until at least 2020 and in some cases beyond – ERDF and ESF.

- The European Regional Development Fund helps fund initiatives such as business support, financial instruments (loans, guarantees etc.), low carbon, green travel, waste reduction and IT including the rollout of next generation Broadband. There is an allocation of €141m for this programme in the Highlands & Islands.
- The European Social Fund helps fund initiatives such as vocational training, employability measures and poverty reduction. There is an allocation of €51m for this programme in the Highlands & Islands.

4.3 The Scottish Government are the Managing Authority for these two ESIFs in Scotland. The ERDF and ESF Programmes are divided up into “Investment Priorities” which are taken from the EUs core Investment Priorities for the 2014-2020 Programmes across all Member States. The individual Investment Priorities vary dependant on what focus the Member State wrote into its Partnership Agreement with the EU at the start of the programme period in 2014.

4.4 Based on the economic circumstances at the time the Partnership Agreement was being developed (2012-13), Scotland chose to focus on Jobs, Growth and Investment and as a result those that are included are:

## ERDF

- 01 - Strengthening research, technological development and innovation
- 02 - Access to, and use and quality of, information and communication technologies
- 03 - Enhancing the competitiveness of small and medium sized enterprises
- 04 - Supporting the shift towards a low carbon economy in all sectors
- 06 - Preserving and protecting the environment and promoting resource efficiency

## ESF

- 08 - Promoting sustainable and quality employment and supporting labour mobility
- 09 - Promoting social inclusion, combating poverty and any discrimination
- 10 - Investing in education, training and vocational training for skills and lifelong learning.

- 4.5 The Scottish Government in turn distribute funding to lead partners (public agencies and in many cases, local authorities) through Strategic Interventions (SIs) which are large-scale allocations, structured around specific themes and with specific aims. These SIs relate to the Investment Priorities above and all that is funded are required to fit within these. This allows a limited amount of variation in the types of projects that can be approved by the Scottish Government. Any more substantial changes require revision of the Partnership Agreement with the EU.
- 4.6 Following the Scottish Government's mid-term review of the EU funding programme in Scotland, the Partnership Agreement was revised in December 2017. While usefully the maximum intervention rate was increased to 70%, this review did not involve any other substantive changes and, most importantly, it was agreed that the previous Investment Priorities would remain unchanged. This therefore means that any further projects put forward for the remainder of the 2014-2020 programme period must still sit within the previously approved Investment Priorities as detailed in 4.4.
- 4.7 As was reported to the Council at its meeting on 27<sup>th</sup> June 2019, the Scottish Government had written to all lead partners in Scotland, including the Council On 24<sup>th</sup> May regarding the European Social Fund (ESF). This letter advised that the European Commission had suspended payment of any claims submitted by or due to be submitted from Scottish Government until a number of identified issues had been resolved. The Scottish Government and the Commission are actively working to identify a solution and the Council is continuing to support these efforts.

## 5. The Highland Council as a Lead Partner

- 5.1 The Highland Council are the Lead Partner for three EU Structural Funds Strategic Interventions (SIs):-
1. European Regional Development Fund (ERDF) - Business Competitiveness: Local Growth Accelerator Programme (LGAP).
  2. European Social Fund (ESF): Employability: The Highland Employability Pipeline.
  3. European Social Fund (ESF): Poverty & Social Inclusion.
- 5.2 Following the approval of the Highland Council's applications for the above activities work commenced in delivering these – in some cases directly by the Council but in many cases through third parties e.g. third sector partners delivering employability programmes. Delays at a national level in launching the programme meant many activities were unable to commence until 2015 or 2016 so some re-profiling of spend

was necessary to take account of the delays. Following the Scottish Government's decision to offer a higher grant intervention rate following the mid-term review, the Council has been working to bring "phase 1" (lower intervention rate activity) to a close and to launch a "phase 2" where the higher intervention rate can be claimed. This work is under way with one phase 2 application already approved and the other two currently being considered by the Scottish Government.

5.3 In addition to the Highland Council acting as Lead Partner for the above SIs, the Council is also an applicant to the 8<sup>th</sup> City SI (This is an ERDF project led by Glasgow City Council with The Highland Council and Scotland's other city authorities as Delivery Agents). The Council submitted an application dealing with three areas of work: Smart Mobility, Smart Waste and Open Data which was approved and work is now under way.

## **6. Strategic Interventions led by other public sector partners**

6.1 While the Council acts as Lead partner on a number of SIs as described above, other public sector partners also lead SIs which benefit the Highland area. Amongst these are:

- Innovation – Highlands & Islands Enterprise (HIE) lead this element supporting key businesses to innovate working with partners such as the University of the Highlands & Islands (UHI).
- Broadband - delivered by HIE & Digital Scotland this sees the rollout of broadband to areas which see market failure in terms of commercial provision.
- Low Carbon Travel & Transport and Infrastructure – led by Transport Scotland, this has seen the Council deliver initiatives such as Electric Vehicle charge points and a local low carbon transport hub.
- Developing Scotland's Workforce - Skills Development Scotland and Scottish Funding Council are the lead agencies with this work including funding to universities including UHI.
- Natural & Cultural Heritage Fund – led by Scottish Natural Heritage this scheme has seen a single round of competitive applications for new medium to large scale developments.

## **7. Remaining 2014-20 programme funds and potential projects**

7.1 In late 2018 it was anticipated that there might be significant unallocated funds remaining that might be allocated to further projects although these would still have to fit within the agreed Investment Priorities shown in 4.3 above. Nevertheless, the Council estimated that, even after allocations were agreed for phase 2 activities there could be ERDF and ESF funds available for new projects in the Highlands & Islands.

7.2 Officers identified a number of possible projects that the Council might lead on that could proceed if or when funding became available and these were presented to the Council administration in late 2018. These projects all sat within the previously approved Investment Priorities described in 4.4 on the basis that an approach to the European Commission with a view to changing the range of Investment Priorities would likely be a complex and lengthy process that was unlikely to succeed - particularly as, at the time the UK was expected to be leaving the EU in March 2019.

## **8. Current situation regarding performance and the potential reallocation of funds**

- 8.1 The Council, along with its partners in the Highlands & Islands European Partnership meet with the Scottish Government twice yearly to provide input to the operation of the ESIF funds in the Highlands & Islands – known as the Highlands & Islands Territorial Committee (HITC). At the November 2018 meeting of the HITC a request was made for further information on any uncommitted or returned funds so that the projects identified could be worked up further if there was a realistic possibility that they might be supported.
- 8.2 In addition, part of the programme funding structure includes a performance reserve - funding that is based on achieving an agreed level of activity and expenditure. This was assessed by the European Commission in mid-2019 and it was identified that only two Highlands & Islands priorities had achieved the required level. As a result, these funds will have to be reallocated to other priorities.
- 8.3 At present the government are proposing reallocating some of this Highlands & Islands reserve to the rest of Scotland on the basis that those areas are overcommitted and require funds. As this proposal was put forward by the Scottish Government without consultation with the Highlands & Islands partners, the Council is currently challenging this proposal as the Council has other potential Highland projects that could make use of this funding.
- 8.4 In parallel with this the Council is continuing discussions with the Scottish Government over the potential to access any uncommitted or returned funds for new or additional work. The Council has a further opportunity to present the Highland case and to get an update on the current situation at the HITC meeting planned for 7 November 2019.

Designation: Executive Chief Officer Transformation and Economy

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