ESIF-009

European Structural and Investment Funds

Scottish Local Authority Economic Development Group (SLAED)

INTRODUCTION

The Scottish Local Authorities Economic Development Group (SLAED) is a network of senior officials from economic development teams across all 32 Scottish local authorities.

SLAED is national voice for local economic development services in Scotland, linking the work of member councils, providing a means of collaboration with wider partners and of acting as an interlocutor with the Scottish and on occasion UK Governments.

As such the organisation has taken a strong interest in Scottish EU Structural Funds programmes and has a long standing thematic group focussing on EU Funds. In addition the subject has featured prominently on the agenda of its Executive Committee.

RESPONSE TO QUESTIONS

Current spending priorities and approval processes:

Bearing in mind that Structural Funds are governed by EU rules and regulations:

1. How the Scottish Government identified and agreed spending priorities for its current ESIF allocations.

2. The processes the Scottish Government went through with the European Commission to gain approval for its ESIF plans.

3. The involvement of SG agencies, local authorities and the third sector at this stage of the process

Although it did not respond to the formal consultation exercises conducted by the Scottish Government in 2013 and 2014, SLAED took a close interest in the development of the programmes. Towards the end of the programme preparation process SLAED took on an increasingly prominent role in representing the collective interests of Scottish local government as the focus of the Scottish Government's attention moved to operational matters.

While welcoming this recognition of SLAED's role by the Scottish Government- SLAED has a number of comments on the totality of the process as outlined below:

- The analytical basis and corresponding intervention logic was not sufficiently articulated as a basis for the selection of priorities and allocation of resources.

- A lack of substantive or complete material on which to comment – this was particularly the case regarding the breakdown of the overall programmes' budget. No information about proposed financial allocations (nor outputs and results) was included in either the May or December 2013 consultations so in essence views were being sought on a "menu without prices". It was only at the final stage that draft financial allocations and the associated outputs and results were made available and even here the information was incomplete and in some cases inconsistent. and
- Challenging timescales - It was especially challenging to comment comprehensively on the draft operational programmes given the lack of time given - less than 2 weeks - so to do and the length (in excess of 150pages) of the programme documents.

Underpinning the "set piece" consultations there was considerable degree of dialogue between the Scottish Government and stakeholders, latterly much of this from the local authority perspective being conducted through SLAED. However it was not always clear that this activity was coordinated or followed a coherent plan. Part of the problem lay in seeking to integrate the planning of programme under the four different ESIF funds. In the past the process of preparing ERDF and ESF programmes was overseen by "Plan Teams" involving stakeholders as well as the Scottish Government. While it is the case that supporting the work of Plan Teams does have resource implications, setting up such a mechanism would have improved the (2 way) flow of communication, improved the quality of the programme preparation process and enhanced stakeholder "buy in" to the programmes.

Current spending:

4. How the differing needs of Scotland's regions are accounted for in the current range of ESIF programmes.

5. How the 2014-2020 programme funding is being spent, which areas have benefitted and any issues with these commitments or processes.

6. Understanding current accountability and reporting issues.

7. How current and previous programmes are evaluated and any suggested improvements to the evaluation process

SLAED welcomes the committee's recognition in question 4 that there are a number of distinct regional economies and labour markets in Scotland – beyond the Highlands/Lowlands and Uplands distinction. The diversity of economic circumstances within Scotland was not fully reflected in the design of the 2014-20 programmes and this may have been a factor in relation to the delivery challenges highlighted below.

The regional approach to economic development within Scotland has also been endorsed by the recent review of the Skills and Enterprise agencies – in particular through its identification of regional partnerships as a key workstream. This may be particularly relevant for the replacement for European Structural Funds (see section 3).

As the committee will be aware translating the commitment made under the programmes into declared expenditure to the European Commission has been problematic – with the result that the programmes' target levels of expenditure by the end of 2017 were not met and around €22m lost to the programmes.

There are a cocktail of reasons explaining why this situation has arisen, the most significant being:

- Delays in approval by the European Commission of the Programmes (December 2014) – this of course was an EU wide problem – the structural fund regulations were only adopted on 17th December 2013 and the Scottish programmes one year later in December 2014;
- Elongated Scottish Government appraisal and assessment procedures – the first Grant Offer letters not being issued until December 2015 – most were not issued until well into 2016;
- Continuing issues with the EUMIS (the MI system used to process claims and performance reports) with full functionality not being reached until summer 2017, some two years later than planned. It is important to note that claims must be accompanied by detailed performance data which, for people based interventions, involves the transfer of large volumes of what is often sensitive data;
- Uncertainty regarding the cost models to be used. A great deal of time was spent – ultimately abortively -by both the Scottish Government and partners (including SLAED) to develop a "unit cost approach";
- Loss of Match Funding for example through the Local Government Settlement;
- Results of testing the market (advertisement, assessment and award of procured contract(s)) and/or running challenge funds. A lack of available match funding for third sector organisations added to the difficulties in securing positive outcomes to some of these procurement/challenge fund exercises;
- Evidencing Participant Eligibility (especially for Youth Employment Initiative and employability activities) – following consultation with SLAED the Scottish Government issued revised guidance on this issue – but this only took place in early 2017;
- Improvements in most local labour markets (ESF activities) reducing the number of potential clients; and
- Impact of Welfare Reform (Universal Credit) and of the introduction of Devolved Employability Services (Work First / Work Able / Fair Start Scotland).

In terms of oversight of the programmes Articles 47 to 49 of the ESIF General Regulation set out the composition and functions of the Programme Monitoring Committee (PMC). In Scotland a Joint PMC covering all 4 ESIF funds was set up. SLAED has representation on the JPMC but generally this body meets only twice a year (the minimum frequency is once per year). Covering the key issues and reviewing performance in any depth within 4 programmes in the constraints of a 2 to 2 and a half hour meeting is a very difficult task.

Beneath the JPMC there are a range of generally ad hoc Strategic Intervention or Investment Priority specific arrangements through which there is a degree of communication, review and collaboration between the Scottish Government and stakeholders. In addition there are “territorial committees” covering the Highlands and Islands and South West Scotland YEI Investment Priority. While this has been mutually helpful in many cases, a more systematic approach to the ongoing monitoring of programme performance and addressing issues on a cooperative basis would be highly desirable.

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 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.

SLAED is concerned at the loss of funding to Scotland arising from the programmes’ failure to meet the 2017 spending targets. The loss is regrettable for 2 reasons:

- It means that funds allocated for economic regeneration and labour market interventions in Scotland are lower than would otherwise be the case; and
- It potentially impacts negatively on the case for Scotland’s allocation under the proposed UK Shared Prosperity Fund (see next section).

Future programmes:

8. How any future replacement of ESIFs could be used to improve employment, infrastructure and productivity in Scotland’s regions.

9. Which level of government is best placed to decide how future funding is allocated and what accountability processes should be in place?

10. What are the potential **opportunities and risks presented by any replacement fund or programme for ESIFs**

While SLAED is aware of the proposed UK Shared Prosperity Fund it has not as yet developed a formal position on the size, scope and governance of this fund. It looks forward to the UK Government providing more information on this initiative in early course and consulting with stakeholders across the UK on its main features.

The main risks at the present time are:

- The fund is under resourced and/or is only available in the short term – regional economic disparities arise from long term structural causes that cannot be dealt with adequately by short term fixes;

- The fund is not operational in time – leading to a hiatus in support for sustainable and inclusive growth
- There is undue top down management and direction of the fund –the principle of subsidiarity should apply; and
- The audit and compliance procedures become as onerous as those associated with ESIF funds.

The key opportunities are:

- A chance to have a fundamental rethink of the nature and scope of regional economic development policy in the UK and Scotland – EU policies in many respects have acted as a proxy for a UK/Scottish regional policy;
- Significant savings in the administration and monitoring of the funds – for example in relation to the volume of documentation required and the period of time that these records must be retained; and
- Support for a bespoke mixture of people, company and place based activities required to unlock regional development potential and deliver inclusive growth rather than have to adhere to arbitrary allocations for a relatively narrow and prescriptive range of activities.

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