

## European Structural and Investment Funds

### Comhairle nan Eilean Siar

#### Preamble

Over the course of May and June 2018, the Economy, Jobs and Fair Work Committee will hold an inquiry into the European Structural and Investment Funds (ESIF) and what could replace these once the UK leaves the EU.

The Committee has the following remit:

*“To understand how European Structural and Investment Funds (ESIF) are currently used to support economic development in Scotland, at both a regional and local level. This will help inform the committee’s views on, and develop ideas for, what should replace ESIFs once the UK exits the European Union.”*

The following questions are being asked and the Committee seeks responses from stakeholders by 13 April 2018:

#### **Current spending priorities and approval processes:**

Bearing in mind that the 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.**

Scottish Government issued a number of consultations in May-June 2013, December 2013–January 2014 and May-June 2014. These consultations, to varying degrees, covered a number of areas including the UK Partnership Agreement, the UK Partnership Agreement’s Scottish Chapter, Thematic Objectives, Governance and delivery mechanisms, the Operational Programmes and the integration and synergies between programmes. Comhairle nan Eilean Siar responded to all of these consultations.

It was clear from the outset that the EU Structural Funds Programmes (ERDF and ESF) were driven by the priorities set out in the EU 2020 Strategy for Smart (Business Competitiveness, Innovation and job), Sustainable (Low Carbon and Resource Efficiency) and Inclusive Growth (Combating Poverty and Social Exclusion). As regards Member State intervention, the key framework document was the UK Partnership Agreement which included a Scottish Chapter. In early discussions, the UK Government had agreed in principle, for the purposes of the Concordat, that the UK Partnership Agreement, and any subsequent review of the UK Partnership Agreement and the devolved Scottish Chapter of it, would respect

and implement, wherever possible, the COREPER<sup>1</sup> provisions agreed on 19 December 2013: “...where appropriate, an integrated approach, to address demographic challenges of regions or specific needs of geographical areas which suffer by severe and permanent natural or demographic handicaps, as defined in Article 174 of the Treaty”.

While the final UK Partnership Agreement (3.1.6) did recognise the Highlands and Islands, as “.....the only region of the UK that falls within the scope of the EU definition of severe and permanent demographic handicap .....and which has a population density of 11.2 people per square kilometre”, the consensus, certainly among Highlands and Islands European Partners (HIEP), was that the UK Partnership Agreement and the Scottish Chapter of it did not recognise or address sufficiently territorial/regional and sub-regional differences. Early in proceedings, it was apparent that the 2014-2020 ESIF programmes were going to be Scotland-wide which raised concerns about their adaptability and appropriateness for islands and mainland peripheries. The Comhairle’s view, specifically, was that the Scottish Chapter (the Scottish Partnership Agreement) should have had a stronger islands dimension with a strong policy commitment to support islands and peripheral areas and in doing so recognise the specific challenges and needs of geographical areas which suffer from severe and permanent natural or demographic handicaps. However, the European Commission was resistant to the geographic/permanent handicap argument and, consequently, quite a number of initiatives and projects could not be fulfilled under the current programmes such as infrastructural development or connectivity.

In one sense there was no lack of stakeholder consultation, but it is arguable how much cognisance was taken of stakeholder views on the final shape and content of ESIF programmes, governance and delivery arrangements. The programmes were predicated on the principle of alignment of priorities and strategies at EU, UK and Scottish Government level as a basis for allocating EU funds to meet EU 2020 goals. Ultimately, there has been insufficient flexibility within these parameters to allow Highlands and Islands regional and sub-regional priorities and challenges to be fully addressed.

### **Current spending:**

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

In recognition of the Highlands and Islands region being designated as a Transition Region, with ring fenced monies of €173m, there was a consensus among Highlands and Islands’ stakeholders that the different development needs and opportunities of the region would be best addressed within a separate programme for the region, with appropriate delivery and decision-making structures, as had been the case with successive Structural Funds programmes in the Highlands and Islands from 1994-2013. The Comhairle and its partners within HIEP certainly lobbied strongly for a separate Highlands and Islands Structural Funds programme, but to no avail. HIEP’s work on a H&Is 2020 Strategy which set out three key priorities (Improved Connectivity – Transport and Communications; Developing the knowledge economy

---

<sup>1</sup> Committee of Permanent Representatives from Member States

through support for growth sectors, particularly renewable energy as part of low carbon economy; and Skill Development) was largely overlooked as was work done with Hall Aitken Consultancy's "Lessons Learned from the H&Is Convergence 2007-13 programme" study. The development of the Highlands and Islands Integrated Territorial Investment (ITI), as an alternative to a separate Highlands and Islands programme was part of the dialogue with Scottish and UK Government for a time, but in retrospect, and in the Comhairle's view, it was never really seriously considered by Scottish Government. Officially, the ITI was rejected because of the relatively small scale of ESIF investment in the region.

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

The ERDF and ESF programmes are being delivered through eleven Strategic Interventions led by Lead Partners and Scottish Government Departments. Lead Partners include national bodies such as the Scottish Funding Council; Skills Development Scotland; Transport Scotland; Scottish Natural Heritage; and Visit Scotland; and regional bodies such as Highlands and Islands Enterprise and local authorities. Local authorities' role in the delivery of Strategic interventions as Lead Partners, has been limited to Employability Pipelines, some aspects of Poverty and Social Inclusion (Enhanced Employability) and Business Gateway, representing a relatively small proportion of the transitional monies allocation, e.g. £19.61m for Employability and £3.02m for Poverty and Social Inclusion in the Highlands and Islands.

It is fair to say that some of the Strategic Interventions have had either limited or no impact or relevance in the Highlands and Islands, for example, Green Infrastructure (urban orientated/population settlements >10,000); Big Lottery Poverty and Social Inclusion (urban, largely city orientated); Low Carbon Travel and Transport (high minimum funding thresholds - initially £500k); Circular Economy (SMEs only); National Third Sector Fund (Third Sector only); Aspiring Communities and Growing the Social Economy (both Third Sector, not for profit organisations, or Social Enterprises only), to name a few. Historically, local authorities have been key players in ESIF programmes, as influencers, in developing and leading on projects and providers of match funding in the open competitive bidding rounds of previous programmes, but that role has diminished under a more centralised approach and the Lead Partner model adopted by Scottish Government.

While the Inclusion agenda is a clear priority for Scottish Government, the Comhairle's view is that there is overprovision in Employability, through both national and EU programmes (e.g. ESF Employability Pipelines and the SDS Employability Fund to name but two), which is creating confusion in terminology and criteria and possible duplication of target client groups. The latest addition to the mix is the Fair Start Scotland Fund. In smaller rural and islands areas, the saturation point in terms of the target client groups is reached sooner, yet there is clear demand across the region in other areas which are not being helped by the programmes, e.g. apprenticeships, with able and willing people eager for the opportunity. The Comhairle and other partners asked for specific stand-alone Sustainable Transport and Culture and Heritage Strategic Interventions, but these were not granted. A

Culture and Heritage strand has recently been added since the ESIF mid-term review, but not yet implemented.

Overall, there has been insufficient accountability or transparency as to how funds are allocated in the Highlands and Islands and stakeholders have raised this continuously at the Highlands and Islands Territorial Committee. Generally, there has been poor communication between national delivery bodies and stakeholders for national schemes being implemented in the Highlands and Islands and this has resulted in a poor take-up of some of the schemes in the region. Some of the timelines between calls and submission deadlines have been challenging to say the least, especially given the required scale of some of the programmes. Yet, conversely, the Comhairle was informed recently that a decision on its bid to the Low Carbon Travel and Transport Challenge Fund, considered by the Managing Authority Assessment Panel on 13 March 2018, would take a further five to six weeks.

Match funding continues to be a problem in a climate of public sector funding constraints. The ESIF application process is two staged and has been protracted which has impacted on timelines. The whole process from application, to governance, delivery and claims is very labour intensive, bureaucratic and legally onerous on Lead Partners. Some Lead Partners have not taken up their ESF and ERDF provisional allocations, while others are reconsidering their position mid-process with regard to phase 1 continuation. Withdrawals from the programmes of this nature will have implications for Phase 2 allocations and the pace of programme commitment and spend going forward. The pace of spend has been slow and some £22m has been decommitted due to N+3 failure, although it is not clear how much of this is Transition funding.

As regards local community development in the Western Isles, the Outer Hebrides LEADER programme has been performing well, although the Comhairle understands that is not the case across the Highlands and Islands, with concerns raised about disproportionate audit regimes and the IT system.

## ***6. Understanding current accountability and reporting issues.***

The Comhairle is represented on the Highlands and Islands Territorial Committee (HITC) at elected Member and Officer level, on the Rural Development Operational Committee at Director level, and the Islands Authorities' Chief Executives are represented on the JPMC, on a rotational basis, although that latter representation was not secured without some persistent lobbying. However, the HITC has not been the influential and decision making forum hoped for by stakeholders, in terms of determining how Transition monies are allocated in the region. The HITC should have a role in monitoring the impact of funding delivery in the Highlands and Islands Transition region but in reality this does not happen. The papers going before HITC and JPMC have lacked detail and this obviously impacts on transparency, although there has been some improvement in this respect in 2017. Furthermore, the overarching JPMC, which covers all 4 ESIF Funds, only meets twice a year and its composition, largely, is made up of people with no hands-on operational involvement in current ESIF programmes.

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

All EU Structural Funds programmes, in the past and currently, have been evaluated, usually at the mid-term and at the end of programmes. In the Comhairle's view, the most effective programmes in the region have been the Highlands and Islands Objective 1 Programme and the Highlands and Islands Special Transitional programmes, 1994-1999 and 2000-2006 respectively. These were characterised by high stakeholder involvement and engagement in the lead-in to programmes, setting and influencing priorities and also being involved in decision making through Advisory Bodies. These programmes also had the benefit of an Intermediary Advisory Body like the Highlands and Islands Partnership Programme which was a clearing house for applications and acted as a critical friend to stakeholders/applicants. The following Convergence programme 2007-13 saw the introduction of Strategic Delivery Bodies (SDBs - forerunners of the Lead Partner model) and Community Planning bids. Both approaches had difficulties in terms of the coordination and the successful delivery of projects and expenditure.

The current ESIF programme's mid-term review has generated some positive recommendations, but there are concerns that these might be too late in terms of the proposed Brexit date/commitment of March 2019 and the relatively advanced stage of the programmes. These have included proposals to apportion staff costs to projects at a minimum of 40% with timesheets (previously staff had to be 100% on ESF activity); an increase in intervention rates up to 70% for Highlands and Islands ERDF (European Regional Development Fund) and 65% for ESF (European Social Fund) activity; extensions for phase 1 programmes from year end 2018 to June 2020; additional funding for Highlands and Islands Culture and Heritage (ERDF) and for Education and Training (Priority 3 (ESF)); expanding the scope of ERDF Priority 1 for applied research infrastructure; and finally, a focus on smart specialisation sectors. These are all regarded as positive proposals in terms of addressing match funding difficulties and assisting the pace of spend across the programme which to date has been slow and behind the targets set by the Commission (N+3).

***Future programmes:***

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

The Conservative Manifesto (2017, pg.37) has stated that: "...we will use the Structural Funds money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the Fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most." On the face of it, this is a positive statement.

As islands with permanent geographic handicap, the agenda continues to be:

- infrastructural and digital connectivity;

- investment in sustainable growth sectors such as renewables;
- investment in new technologies;
- retention of our working age populations;
- relocation to the Western Isles of pre and post- Brexit jobs;
- affordable housing and rural resettlement initiatives;
- support for our traditional industries;
- control over our natural assets;
- investment in our private sector through an incentivising apprenticeship programme;
- investment in our education and skills;
- expansion of local UHI provision;
- support for aviation and ferries transportation; and
- an overall reduction in the cost of living and an improvement in the mobility of labour.

These are the broad areas the Comhairle would want supported by the Shared Prosperity Fund (SPF) and which would improve regional competitiveness. Specific projects or programmes could be worked up in the lead-in time which could be lengthy; the expectation from civil servants is that a consultation on the SPF will not be issued until later in 2018. The UK SPF would not start effectively until after the current EU funds run their course at the end of 2020/21, possibly 2023.

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

It is possible, if not probable, that the UK SPF will not be as devolved as the Structural Funds have been in the past (current ESIF Programmes aside), with the key decisions mainly being taken at Westminster. The devolved administrations and Local Government might have something to say about that of course and, arguably, areas like the Western Isles have had a better deal from Brussels than Westminster (with very few exceptions) in terms of regional development, through EU Cohesion Policy.

It is important that local authorities have an influential role in future regional policy post-Brexit which the Comhairle would envisage as involving local determination of regional priorities, local authority control of resources and assets, local decision making and delivery, and working with partners and communities throughout the region to deliver on community aspirations. This could be achieved through direct funding allocations to local authority areas on the basis of costed seven year regional strategies and plans or it could on a wider Highlands and Islands level, with one overarching strategy and plan, but either approach could only be facilitated by UK or Scottish Governments.

In the interim, the Comhairle will continue to work with its Highlands and Islands partners in the lead-up to the launch of the Shared Prosperity Fund, but it is worth emphasising that the Western Isles Regional Strategy 1994-1999 and the Western Isles Transitional Programme Strategy 2000-2006 were especially effective in focusing, coordinating and maximising local partnership efforts and resources during the successful Highlands and Islands Objective 1 Programme and the Highlands and Islands Special Transitional Programme respectively.

Theoretically, withdrawal from the EU frees domestic regional policy from the constraints of EU 2020 and its successors, to invest in and focus on the challenges of territorial handicap and the region's own priorities. There is still a requirement to invest in significant physical and digital infrastructure in the region because of the nature of the geography, something that the European Commission has been rejecting for quite some time.

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

The Comhairle would agree with the collective Highlands & Islands European Partnership's views on both potential opportunities and risks, as follows:

**Opportunities:**

- The UK's exit from the EU provides an opportunity to redesign and strengthen regional economic policy, with an adequate budget to support economic growth.
- Alignment of programmes to regional and sub-regional circumstances, with flexibility to tailor funding priorities to changing economic circumstances.
- Local governance and delivery.
- Reduced and simplified application and claims processes.
- Levels of audit and compliance proportionate to the scale of the project with a greater focus on project outcomes, rather than on audit compliance.
- Greater efficiency in delivery

**Risks:**

- A hiatus between the end of the current ESIF programmes and the establishment of a new programme.
- The Fund is under resourced and/or is only available in the short term; regional disparities arise from long-term structural causes and cannot be dealt with adequately by short-term fixes.
- Post-Brexit regional policy being closely aligned to a UK Industrial Strategy may have negative implications for remote, rural and island areas
- Failure to meet 2017 programme spending targets could impact negatively on the case for funding for Scotland post-Brexit, e.g. failure to spend the funding in current ESIF programmes does not send out the right message, but is counter balanced by the fact that perhaps the funding is not meeting the regional priorities as identified by regional stakeholders.
- Loss of the place-based strategy of EU Territorial Cohesion Policy
- Loss of longer-term planning through 6-7 year programmes
- Loss of stakeholder engagement
- Reduced funding
- Reduced alignment with other EU initiatives (e.g. Erasmus, Horizon, and INTERREG).