INTRODUCTION

The West of Scotland European Forum (WOSEF) welcomes the opportunity to contribute to the Committee’s inquiry into the European Structural and Investment Funds in Scotland. The Forum brings together the 12 local authorities within the region as also a number of other organisations active in the West of Scotland. Issues relating to the development and implementation of European Structural Funds have been “core business” for WOSEF over a long period of time.

The Forum recognises the importance of European Structural and Investment Funds (ESIF) support through the Scottish Rural Development and UK Maritime and Fisheries Programmes for many rural and coastal communities within the West of Scotland. However this response focusses solely on European Regional Development Fund (ERDF) and European Social Fund (ESF) issues.

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

There were 3 key milestones in terms of consultation by the Scottish Government with stakeholders on the Scottish ESIF programmes for 2014 -20

- Between 14th May and 30th June 2013 on the Scottish Chapter of the UK Partnership agreement;
- Between 12th December 2013 and 17th January 2014 on the Scottish European Structural Fund programmes; and
- Between 30th May and 16th June 2014 on the draft texts of the operational programmes (this was not a formal consultation)

The Forum submitted full responses to each of these exercises.
In the opinion of the Forum, the actual weaknesses of these processes were:

- 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.
- 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 150 pages) of the programme documents; and
- Of particular concern to WOSEF was the lack of coverage given to the South West Scotland Youth Employment Initiative (YEI). This probably was a reflection of the lack of capacity allocated to developing this initiative in the West of Scotland and the subsequent challenges for delivering this priority stem at least in part from insufficient work at the planning stage.

Underpinning these “set piece” exercises there was considerable degree of dialogue between the Scottish Government and stakeholders. 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

The Forum 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 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.

In its response to the consultation on the Scottish Chapter of the UK Partnership Agreement the Forum expressed concerns that:

“the proposed arrangements appear to exclude any significant element of spatial targeting.”

No major changes in terms of a spatial dimension to the programmes subsequently occurred although notional budgets under some interventions led by local authorities did follow an allocation methodology. On the other hand many other interventions are “geographically blind”. There is thus a risk that for example ERDF activities aimed at business competitiveness and innovation – aimed at EU level in reducing economic disparities – may actually widen gaps in economic performance within Scotland if the actual location of supported activities is disproportionately in areas which are already performing strongly.

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:

1. 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;
2. 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;
3. 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;
4. Uncertainty regarding the cost models to be used. A great deal of time was spent – ultimately abortively - by both the Scottish Government and partners to develop a “unit cost approach”;
5. Loss of Match Funding for example through the Local Government Settlement;
6. Results of testing the market (advertisement, assessment and award of procured contract(s) and/or running challenge funds;
7. Evidencing Participant Eligibility (especially for YEI and employability activities)
• Improvements in most local labour markets (ESF and YEI 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. The JPMC generally meets only twice a year (the minimum frequency is once per year) but 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. There is a YEI Territorial Committee convened by the Scottish Government which meets twice per year. 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.

The Forum is concerned at the loss of funding to Scotland arising from the programmes’ failure to meet the 2017 spending targets and indeed specifically raised this matter with the Cabinet Secretary in June 2017. 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
The Forum has been proactive on replacement funding for ESIF support following Brexit and is concerned that in recent months the work required to ensure a smooth transition between ESIF and the UK Government’s proposed UK Shared Prosperity Fund appears to have stalled.

In considering the replacement funding for ESIF programmes following Brexit, WOSEF has worked closely with the Industrial Communities Alliance (ICA). WOSEF/ICA consider that the key principles underpinning the UK Shared Prosperity Fund should be as follows:

ICA KEY POINTS (GREAT BRITAIN LEVEL)

- Deliver the new UK Shared Prosperity Fund to take over the responsibilities of the EU Structural Funds
- Set the new Fund’s budget at a level (outwith the Barnett formula) that not only compensates for the loss of EU funding (£1.5bn a year) but also provides additional resources to match the scale of the challenge
- Structure the new Fund in ways that deliver support more efficiently, more flexibly and with more local authority control;
- Allocate the new Fund in fair and transparent ways that give priority to the development needs of less prosperous regions and local economies;
- Reform the rules on financial support to companies to enable the delivery of more effective support in the places that need it most; and
- Exploit the opportunity provided by this major revision of regional policy to align a wider range of public spending with the priority of local and regional economic development.

WOSEF KEY POINTS (SCOTTISH DIMENSION)

- Continuity of funding over a sustained period rather than a series of disconnected, time limited and small scale initiatives;
- Allocations to be driven by the challenges to sustainable competitiveness rather than chasing short term opportunities;
- Intervention at the right spatial scale (ie below NUTS level 1) – geography does matter. In this context the scope for linking this policy to the review of the enterprise and skills agencies and the various City/Growth deal initiatives should be explored; and
- Flexibility at regional level to determine the right mix of aid to businesses, employability support and investment in economic infrastructure;

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 terms 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 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.