OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 8 May 2018

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 8 May 2018

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
16th Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Kezia Dugdale (Lothian) (Lab)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Fulton MacGregor (Coatbridge and Chryston) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Carroll Buxton (Highlands and Islands Enterprise)
Alison Cairns (Scottish Council for Voluntary Organisations)
Martin Fairbairn (Scottish Further and Higher Education Funding Council)
Malcolm Leitch (Scottish Cities)
Gordon McGuinness (Skills Development Scotland)
Dr Serafin Pazos-Vidal (Convention of Scottish Local Authorities)
Iain Scott (Scottish Enterprise)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 8 May 2018

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the 16th meeting in 2018 of the Economy, Jobs and Fair Work Committee. I ask everyone in the public gallery to turn off or switch to silent all electrical devices. We have received apologies from committee member Dean Lockhart.

Agenda item 1 is a decision by the committee on whether to take items 3 and 4 in private. Do we agree to take those items in private?

Members *indicated agreement.*

European Structural and Investment Funds

The Convener: This morning we begin our European structural and investment funds inquiry. I welcome our first panel of witnesses: Iain Scott, chief financial officer, Scottish Enterprise; Martin Fairbairn, chief operating officer, Scottish Further and Higher Education Funding Council; Carroll Buxton, regional development director, Highlands and Islands Enterprise; and Gordon McGuinness, director of industry and enterprise networks, Skills Development Scotland.

The sound desk operates the microphones, so there is no need to press any buttons. Do not feel that you have to respond to every question; you can simply indicate, by raising your hand, when you want to contribute; indeed, you can submit written evidence after the session if there is something that you want to cover more fully or are not able to deal with today.

Do you have specific instances of European structural funds being of assistance in Scotland in supporting what we refer to as inclusive growth? The committee has heard evidence giving different definitions of that term, so perhaps you could indicate specific examples in which you feel that there has been a specific benefit of that nature. Has that support resulted in structural or ground-breaking changes that will result in long-term benefit rather than simply a temporary blip?

Carroll Buxton (Highlands and Islands Enterprise): As you are probably all aware, the Highlands and Islands have benefited hugely from European funding for several decades. You asked for specific instances, one of which has been HIE's ability to invest in business infrastructure across the region over the period, particularly in some of our more peripheral areas; for example, the European Marine Energy Centre up in Orkney has benefited from European structural funds, as has the European Marine Science Park in Dunstaffnage in Oban. That has helped to support key sectors, such as—in those cases—the renewable energy and marine sector. I also cite our ability to increase levels of support in the recruitment of graduates by businesses across the region. We have given higher levels of support to businesses in more fragile and peripheral areas. In those cases, it has very much helped to address disparity across the region.

Iain Scott (Scottish Enterprise): European funds are a core part of the Scottish Enterprise business plan each year. We see that business plan as comprehensive across inclusive growth areas. The three main areas in the plan—investment, innovation and internationalisation—are all supported by significant amounts of

European funding. The funding covers a huge range of the products that we deliver to companies that help with growth in the economy.

Martin Fairbairn (Scottish Further and Higher Education Funding Council): Our experience over the past few years has been more focused on the inclusive side of the equation—the youth employment initiative funding and developing Scotland's workforce under that initiative. The focus is on the aftermath of the recession and tackling youth unemployment. You asked about the impact, and the statistics on youth employment are higher than they were before, so that has been positive.

Our other experience of structural funds has been in the same area that Carroll Buxton touched on, particularly around innovation; we have been working with businesses and creating partnerships with universities in that area. These are early days on some of that stuff.

Gordon McGuinness (Skills Development Scotland): A lot has been done in the current programme on seeking to create long-term change through the foundation apprenticeships. A new model has been developed and we have worked hard in partnership with colleges and local authorities through the school system. It is about creating different pathways and a much-enhanced vocational experience for young people in the workplace. There has been a focus on that, and the new activity has been built on international best practice. We started modestly in 2014 and, in 2017 to 2019, I think that we will have around 1,200 young people in the programme and we will build that up to 5,000.

New models of working have been created. We have done good work in the islands, where the programme is creating better linkages between schools and local employers. In terms of inclusive growth, there is a lot within that model that will be beneficial in the long term.

Gillian Martin (Aberdeenshire East) (SNP): I want to focus on the youth employment initiative and developing Scotland's workforce. I have here a Colleges Scotland submission on that—it was made to the Education and Skills Committee, rather than to this committee—which says that, in 2017-18, there was funding of £24.7 million for both those projects to do employability programmes in colleges.

What are you looking for by way of a replacement for that funding? What do you think that the proposed shared prosperity fund will deliver? Colleges Scotland has been able to rely on that European funding to plan long-term programmes.

Martin Fairbairn: First, to clarify the numbers, the £24 million to which you referred is the total and includes our match funding. The actual contribution of European funding is £14 million out of that total. Secondly, as I indicated at the beginning, quite a lot of that is around youth unemployment, which you mentioned. Given that youth unemployment is coming down, if those initiatives had rolled forward they would probably have been reduced anyway.

Therefore, I think that we need to rethink the type of impact that we want on the economy. As we reach post-recession and begin to think about the other impacts that will be hitting on the economy, we are turning our minds to retraining or reskilling the established workforce in the economy for all the new things that are coming along; I am referring not just to digital, but to impacts on other elements of the Scottish economy. Is the workforce ready for that? The answer is probably not. What can the public sector do to support businesses in that territory? Gordon McGuinness might have something to say on that area, too.

Gordon McGuinness: I think that Martin Fairbairn is right. These are early days in terms of what the shared prosperity fund will look like, and I think that the Scottish Government is seeking further dialogue at United Kingdom level. There needs to be recognition of the demographics within the workforce. The number of young people who are leaving school is the signal, so we would probably expect a reduction in the numbers who are going through further and higher education as well as looking at a modern apprenticeship programme.

For the future, some of the work that we did in our "Jobs and Skills in Scotland" report indicated a stronger focus on reskilling and upskilling people as jobs change, either as a result of automation or through the impact of things like Brexit and some of the opportunities that could arise for people.

Gillian Martin: You mentioned the shared prosperity fund and the need for clarity about how it will be delivered to the various regions of Scotland. How would you like to see that funding being delivered? Who should manage that replacement funding?

Martin Fairbairn: I think that there is a bit of a common theme, not just in submissions from the funding council and organisations such as Colleges Scotland and Universities Scotland, but in other submissions, too. Let us try to look at opportunities. Whatever arrangements we have in the future, if Scotland is able to decide for itself on the priorities and arrangements for managing the funds, there will be an opportunity to make the funding more relevant to different parts of Scotland.

Carroll Buxton can probably say a wee bit more about that with regard to the Highlands and Islands, but I think that it is true across Scotland. Our colleagues in Lanarkshire and the Glasgow region would probably say the same thing, too—that comes through in the submission from the colleges partnership.

To be blunt, part of that may mean looking at how we can simplify the management of the funds. In my organisation, the administrative cost of managing a relatively small amount of money compared with the totality of our funding is disproportionate. I can understand how that situation has arisen, given that we are talking about funding that is ultimately designed to work across Europe; that has to be taken into account in designing a method that will work across Europe.

In Scotland, we can look to build on our existing arrangements for managing a variety of programmes rather than just continuing with those arrangements.

Gillian Martin: Is there a need for increased funding that will tackle some of the issues around employability and the changing landscape? I am thinking in particular about my area of north-east Scotland. I suppose that we are in a situation of potential transition from fossil fuels to other types of energy. I worry that the funding may not be as regionally developed as that. The funding might just come from the UK Government without account being taken of the regional aspect, in which programmes will need to be specifically developed to change a sector.

Gordon McGuinness: A number of issues arise. You are looking for the strategic use of funding, and I would hope that that will be as evidence based as possible. We have spent a fair amount of time working with partner organisations to produce things such as regional skill assessments, and then working with partners around developing regional skill investment plans. The plan for the north-east indicates that requirement for diversification and a shift to highlighting other areas, such as tourism; food and drink is also an area for development.

To return to your original question, I think that Government—particularly the Scottish Government—needs to undertake a bit of due diligence on the impact of the funds being withdrawn. There is a representative from the Scottish Council for Voluntary Organisations on your second panel today, and I think that funds for much of that sector's work have become really tight through the austerity programme. I think that there is a need for due diligence, and then some sort of assessment, on where the funds will be removed from.

Scotland has done a lot of work on the inclusive growth model. Third sector organisations play into that in a big way, so they understand where we are coming from and what the potential impacts are, so that we do not—for want of a better term—throw the baby out with the bath water. If there are good programmes, we should seek to maintain some of them, as well as thinking about our strategic long-term intentions and moving away from the annuality that there has been in a number of the programmes and getting some longer-term investments.

Gillian Martin: Thank you.

Kezia Dugdale (Lothian) (Lab): How would you describe, in the context of European structural investment funds, your relationship with local authority partners and third sector organisations, specifically when it comes to strategic interventions?

Martin Fairbairn: My answer will be relatively short. The funding council is running a national programme right through colleges. On the ground, we expect individual colleges to work with their local authority partners and third sector organisations to make best use of the available money. We do that through our outcome agreement process. The funding council's contact with the local authority sector is not as direct as contact rightly is at individual college level.

Carroll Buxton: The Highlands and Islands is a transition region, as members know. We have the Highlands and Islands European partnership, which includes HIE, the University of the Highlands and Islands and all our local authority partners. We worked together on development of the programme. We also have the Highlands and Islands territorial committee, which has been established to look after the current programme.

We have not engaged so much with the third sector on the funds that HIE manages. Through our community development activity, however, HIE has quite significant engagement with the third sector in relation to our community and social development remit.

09:45

Gordon McGuinness: From a managing authority point of view, the strategic delivery partnership has been created. That is where the agencies, the Convention of Scottish Local Authorities and the third sector come together to discuss the shape of future programmes, so there is dialogue at that level.

From an operational point of view, SDS manages the national third sector fund for the Government. That fund is for larger third sector organisations that work across a number of local authority areas. It means that they can develop more strategic bids rather than applying at individual local authority level, which obviously carries a greater administrative burden and fragments those organisations' activities. We work with Government and the SCVO to shape and develop the national third sector fund.

At local level—at community planning level—the dialogue about how funds will be used and how they would complement national programmes such as Martin Fairbairn described is done through a local employability fund forum.

Iain Scott: I would reiterate what Gordon McGuinness said. SE is involved in the creation of strategic interventions at the highest level, on which we work with partners and lead in some areas. On a day to day basis, however, our closest interaction on use of the funds is probably through the business gateways, which are managed by the local authorities, to make sure that clients can access the products that are supported by the funds that we manage.

Kezia Dugdale: Thank you. In the evidence that we have received, there are pretty compelling requests from a number of local authorities to be involved much earlier in the process. They think that if they were they would make better decisions that are more relevant to their communities. Do any of the panellists disagree with that sentiment?

Martin Fairbairn: Not at all.

Kezia Dugdale: That is helpful. Third sector organisations are pretty critical of how things have gone so far. They say that there has been "a lack of transparency", that they are "very concerned" by the rate at which funds are decommitted, and that there are audit-related problems and "a lack of urgency" in pace. Are those criticisms that you acknowledge?

Gordon McGuinness: I have been involved in European structural funds for 30 years in one way or another. There are always tensions. I recognise the list of criticisms that Kezia Dugdale read out from past times.

The programme has got off to a slow start. There are issues between the managing authorities—by which I mean the Scottish Government team and the UK Government team—and about clarity on rules and regulations. Those have knock-on effects, so our foundation apprenticeships programme probably started later than programmes with structural funds within them. We started the pathfinder activity without structural funds, which had a knock-on effect down the delivery chain. The national third sector fund was similar. I think that there was input from the SCVO around the claims process, and we have worked hard with both the managing authorities to clarify terms and conditions.

In the last three or four programmes, we have seen actions being taken to de-risk the programmes for the managing authorities, in terms of making things much more stringent in terms of evidence and rules, for example. There have probably been painful experiences in the past through the European Court of Auditors reclaiming resource, for example, so we now have a set of guidelines that has been developed over a number of programmes.

Some of the client groups that the national third sector fund will work with are vulnerable, and the evidence requirements across a range of factors will probably be difficult to assess, so we have worked with organisations and developed focus groups to try to iron out such issues.

The list of items that Kezia Dugdale read out could be applied to the last three or four programmes, but if they are current just now for the third sector, in particular, then the requirement for or dependence on European funds because of the wider funding environment becomes all the more critical.

Martin Fairbairn: As I said earlier, SE is running something slightly different, but we have done similar work to what Gordon McGuinness described in trying to de-risk. We are, for the youth and employment end of things, trying to base that as much as possible on our existing processes for counting students and funding. That has made things simpler and, I argue, more transparent and straightforward for our college partners.

Looking to the future, in terms of what I was saying earlier about how we might want to use such interventions, it becomes more complicated again when we look at the wider workforce, just by its very nature. Therefore, I hope that we can work hard to find different ways of managing programmes, otherwise we will find ourselves going backwards in terms of the administrative burden, and we will just not achieve the input or the impact that we are looking for.

There is a danger of a double whammy if we are not careful, so we should be thinking differently about the types of areas that we operate in.

Carroll Buxton: I will just support what colleagues have said. The approval process has been complex and slow, as has the claims process, so we recognise the challenges that Kezia Dugdale mentioned.

Kezia Dugdale: Thank you—that is appreciated. I am looking pretty closely here at the SCVO's submission. Gordon McGuinness said that "There are always tensions", but what the SCVO says is pretty serious. The SCVO says that it offered advice to SDS about how the fund should be managed, but the advice was not taken and what you ended up with was, in the SCVO's words,

"a huge, complicated, staff heavy unnecessary administrative process",

which has caused financial hardship for organisations. That is a bit more than a little bit of tension.

Gordon McGuinness: I spoke with our manager on Friday about the matter. I do not recognise the description that the SCVO has provided in its commentary. Many of the criteria are to satisfy the managing authority: if we do not have in place systems to do that, claims are returned because they are incorrect and it causes delays. We have spent a lot of time and effort and provided additional staff to try to resolve the issues and get the payment process into a better position in terms of turnaround times.

Kezia Dugdale: If you do not recognise those criticisms—we will hear from the SCVO in the next panel—what questions do you suggest I put to it?

Gordon McGuinness: From our position, in terms of being the strategic body to implement the programme, we need to get to a position where we can get claims in that are correct and that we can process. To put forward claims that are rejected does not do us any favours, and it does not do the delivery organisations any favours. We have seen gradual improvement in the process, which we continue to work on.

Kezia Dugdale: Thank you.

Andy Wightman (Lothian) (Green): I will follow on from that. It has been drawn to our attention that €22 million of funding was lost to the programme last year. That money has been returned to the EU. I am not interested in hearing a detailed explanation for that but, in broad terms, why did that happen?

Martin Fairbairn: First of all, in terms of SFC funded programmes, I do not think that we have certainly decommitted anything yet. We can certainly see pressures in terms of identifying the original target number of young people that we were looking, with our colleges, to work with. The trend is that youth unemployment is coming down; Gordon McGuinness touched on that in terms of demographics. It is more difficult for us and our colleges to reach the targets that we were looking to meet. I do not know to what extent something similar to that is true in other areas, but that has certainly been a challenge for us.

Gordon MacDonald: To my mind, that is really a question for a managing authority rather than for an individual agency. I know there have been exchanges with Keith Brown about underspend of allocations that have been made to the south-west of Scotland. I think that those were probably made in good faith at the start of the previous programme. Unemployment levels have changed quite dramatically, therefore it becomes difficult to align the original intent of the programme with the existing labour market conditions at this time.

I think there is an issue around flexibility or agility in funds. Funds can get locked into a constrained environment if there is not sufficient time to make those changes and if there is not a plan B that would provide effective use for the funds—not just for the structural funds but for the matched funds that are required to be set against it. My short answer is that that is probably more a question for a managing authority to reflect on.

Andy Wightman: Okay. Scottish Enterprise's evidence says:

"The aspiration for the Scottish 2014-20 ESIF programmes was—for a simplified administrative regime",

but then, in your comments on the future prosperity fund, you say that we need to

"learn from the administrative complexities of the current and past programmes".

Has the current programme been simplified or not? You seem to be implying on the one hand that it has been, but on the other hand, that a lot more work needs to be done.

Iain Scott: I think that our submission was trying to point out that the intention was to simplify the programme, but our observation is that we have ended up with something that is equally complex, or potentially more complex.

There were great intentions at the start about making the funding output related, as opposed to expenditure and input-related. We felt that that was a good way forward. I think that the intention was to have unit prices for certain types of outputs, which we believed would have simplified the overall issues. I think that Gordon McGuinness alluded to that earlier in terms of trying to get evidence for Europe. We would have welcomed that and we put a lot of work into trying to do that, but at a fairly late stage in the process it was decided that that would not be the way forward, although we would keep it in there and bring back in the old way of looking at the expenditure input side of things. We believe that the situation has become more complex because of that.

We suggest that, looking forward, we should try to implement the original intention of the programme to make things output-related. That would certainly be simpler for our clients and customers in terms of submitting evidence to claim the support that we give them. That should also be simpler for us to manage, so the overall process would be more straightforward.

Andy Wightman: In general terms, the programme is designed to reduce regional disparities. Looking at it from the outside, it appears that it should have been outcomes-focused from the beginning. A lot of people who have been engaged in it seem to have been tied up in administrative knots about expenditure, claims and all the rest of it, with very little focus being given to the structural outcomes of the programmes. I think that a colleague will ask a question later about how we evaluate the programme, but is that a fair assessment?

Martin Fairbairn: Broadly speaking, yes it is. I will use a very particular way to illustrate that from our experience. We have moved to the unit-cost approach that Iain Scott described. In other words, we are more interested in how many students are benefiting than in expenditure related to the programmes. First of all, that is simpler for our colleges to manage. We think that we are probably also okay in terms of being able to reclaim the money from the managing authority, Europe and so on.

However there has been another side that has been expenditure related, particularly in relation to student support funding, which is more difficult to do on an output basis in terms of its administration. Authorities are going to want to look at how much funding has gone straight into people’s pockets. Given the nature of the students whom we are seeking to support, you can imagine that pulling together evidence of and verification for that is challenging. We are beginning to come to the conclusion that we probably need to not have that as part of our next programme, and instead to seek to support students in different ways.

That illustrates the point that Iain Scott was getting at, that we can focus more on outputs. Are we benefiting? In my case, for students in particular areas or from particularly challenging backgrounds, and in terms of targeted support for individual students, administration and audit—in terms of European programmes—are extraordinarily challenging.

If we are going to do stuff like that in the future—I touched on this earlier—then let us look at it as an opportunity. We may need to think about it quite differently—about how we can make sure we make the impact, but also ensure that it is not burdensome.

10:00

Carroll Buxton: In terms of tackling regional disparity, I think that the Highlands and Islands has previously had a separate programme. This time there was a single Scottish programme, although there was flexibility within the transition region, for example, but not always enough. A specific regionally based programme allows greater flexibility in identifying appropriate outputs or interventions.

Andy Wightman: Okay. Thank you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): For a small country, Scotland is very diverse, and the different regions have very different needs. Are those various needs well catered for in the present structural funds programme?

Carroll Buxton: I think that there has been an attempt to cater for the different needs but, as I indicated in my previous answer, it was probably easier to look at the disparity when there were specific regionally focused programmes. For example, the Highlands and Islands suffers from low levels of population and quite a challenging geography. In the past, we might have had a bit more flexibility to address some of those issues than we have had in the single national programme.

Looking to the future, flexibility to consider specific regional challenges is important. Inclusive growth can mean many things to many people, but there is definitely a geographic, place-based aspect to it, which involves looking at challenges related to geography and place.

Colin Beattie: Can I infer from what you said that you think that there is a lack of flexibility at the moment?

Carroll Buxton: I do not think that there is as much flexibility as there was in the past. In the current programme, our region of the Highlands and Islands has a ring-fenced pot of funding. We also have slightly higher intervention rates and the ability to do different things. In our part of the programme, we can invest in specific pieces of infrastructure that are sectorally based. For example, we have directed some funding towards a joint venture with Orkney Islands Council involving a research and innovation centre up in Stromness, but there has probably not been quite as much flexibility as there was in the past for making such decisions.

Colin Beattie: I am sorry to focus so much on the Highlands, but if you had that flexibility, what would you do?

Carroll Buxton: In previous programmes, we had a bit more leeway to invest in businesses of scale, and the timescale meant that we had more flexibility to reflect on changing environments. As Gordon McGuinness mentioned earlier, things change. The environment that we operate in changes. If we have the flexibility to react to those changes, it makes it a lot easier to direct the funds where they are needed.

Iain Scott: As Carroll Buxton said, the current programme is a single Scottish programme. The straight answer is that we do not recognise that the current programme has tackled those regional issues. Looking forward, one of the outcomes of the enterprise and skills review is about a new approach to regional economic partnerships, and that should be a great opportunity for all partners to work together to look at the specific needs of the various regions across Scotland. We are looking forward to the creation of those partnerships, and we will look to pilot some new approaches. Initially, we will do that in the south of Scotland—the Ayrshire partnership might be involved in that work—but, in future, we will do that across all the regional partnerships.

If funding becomes available in the future, we suggest that the regional economic partnerships would be a good mechanism for having input into the decisions about how that should be allocated across the country.

Colin Beattie: Do the other panellists have a view?

Gordon McGuinness: Our activities in the programme are focused on individuals and are tailored to the requirements of local labour markets across foundation apprenticeships, modern apprenticeships and those at graduate level. We look at the make-up of the business base and at where there is pressure and demand from industry. A lot of the work that has been done on graduate apprenticeships has involved working with industry. Technical education groups have been set up to design the qualifications. That is the regional slant that we would apply.

Martin Fairbairn: My main observation is that if we had a set of more specific arrangements that dealt with the different areas of Scotland, that would make the programme more complicated. From our perspective—I am talking about the types of things that we run—I would be very worried about how that would work. I am sorry to sound like a broken record, but if we continued the existing level of administration and audit that is associated with the programmes, that would make them very difficult to run.

If we want to have a greater focus on different regions—given that, as Colin Beattie said, Scotland is a small country—we might have to rethink how we run such initiatives in the future. Surely we have an opportunity to run them in a different way, such that they have greater impact.

Colin Beattie: How are the programmes evaluated? Is there a way to improve the evaluation process?

Martin Fairbairn: I will kick off on that one. We have been running programmes as a lead organisation for quite a short period of time—we have done so only in the past few years. It is only now that we are beginning to look at and plan the evaluation end of it.

Given that we have designed the programmes to focus on the levels of opportunity that exist for students in particular areas of Scotland, I suspect that the evaluation will be relatively straightforward and that it will be possible to look at fairly hard numbers on impact and so on. However, because we are relatively new to this area, we are not yet undertaking evaluations.

Iain Scott: When it comes to evaluating the programme overall, I would suggest that it is for the managing authority to do that. As I have outlined, the three main areas that we receive funding for are investment, innovation and internationalisation. We run our own evaluations of such activity, which are published on a regular basis. We look at whether our activity is impactful, but it would be for the managing authority to evaluate the programme as a whole.

Gordon McGuinness: As Iain Scott touched on, the managing authority has set up a monitoring and evaluation group that draws in partners. The activities in that area have probably been affected by Brexit. The direction of the programme has changed and a mid-term review has been undertaken.

We have been focusing on the foundation apprenticeship. Last year, an early evaluation was published, which provides early learning and insights. I would be happy to share that with the committee.

Carroll Buxton: Touching on what Gordon McGuinness said, a mid-term review was undertaken, but given the relatively slow start to the programme, it was carried out relatively early in the process from the point of view of delivery.

The key issue for me is having the flexibility in the programmes to react to some of the outputs of those evaluations. If things are not working, we need to be able to readjust our activity or operations to reflect that.

Colin Beattie: Flexibility—or lack of flexibility—seems to be a common theme all the way through the programme. Is that the case across the board or are there any exceptions?

The Convener: Is that a no from Martin Fairbairn? He is nodding, but I am not sure whether that goes into the *Official Report*.

Martin Fairbairn: Mr Beattie asked whether there are any exceptions, and the answer is, “Not really.” The fundamental point to make is that, in our territory, the programmes that we are running with were designed in the recessionary period. We are still running with those programmes, even though the economy is different now. If we were designing programmes now, we would do it in a different way. We might have an opportunity to do that.

Carroll Buxton: I can give an example: the low-carbon travel and transport challenge fund. In the initial stages, the criteria did not really fit the Highlands and Islands, given the small communities and large distances in the region. For phase 2 of the programme, the criteria have been amended a bit, which we hope will make it more attractive to projects in the Highlands and Islands.

Gordon MacDonald (Edinburgh Pentlands) (SNP): We have already touched on the UK shared prosperity fund. If we are to have a smooth transition from the existing European funds to the shared prosperity fund, when must that fund be in place and operational?

Carroll Buxton: It is the inability to leave a long silence that gets me into trouble.

The glib answer would be that the fund must be in place as soon as possible. We have the Government guarantees in place, which give some comfort, but we want there to be a seamless transition so that there is no gap between the programmes that are guaranteed and the beginning of the next programme.

I do not know whether colleagues on the panel are in the same position, but we do not yet have a great deal of detail on the shared prosperity fund. I think that a consultation will start in the autumn, and we are obviously keen to be involved in how that develops. There should be no hiatus. The ability to develop programmes and interventions that move seamlessly from the current period, with the Government guarantees, into the next phase of funding will be critical.

Gordon MacDonald: COSLA has highlighted the fact that, when it had discussions with civil servants in the summer of 2017, no work had begun on the shared prosperity fund. What impact will it have on the various projects that are supported by European funding if there is a gap? It has been suggested by Professor Steve Fothergill that the

“Shared Prosperity Fund needs to be fully in place by the end of 2020”,

yet we are in a situation in which, according to COSLA, no work had been done on it by the summer of 2017. What will the impact be if there is a delay?

Gordon McGuinness: I go back to the point that I made to Gillian Martin. A due diligence exercise needs to be gone through on what has been funded, what is critical and what the impact would be of that funding not being there. That is particularly relevant for the third sector. Most programmes should perform additional activities. A question mark could be put against programmes that perform activities that are fundamental to how systems operate. It could be asked whether they should be funded from structural funds or anything that comes after them, or whether they should be funded from mainstream funding. There is a certain amount of invisibility when it comes to what would be at risk of disappearing, and it is of key importance that work is done on that.

For our part, we will have a clear stop point when it comes to taking young people on to foundation and graduate apprenticeships. We hope to have dialogue with the Government about how those will be funded in the longer term.

Gordon MacDonald: Given that it has been indicated that the fund must be in place by 2020 and that the consultation process will not take place until autumn 2018, does that fill you full of hope that we will achieve the deadlines that are in place?

10:15

Martin Fairbairn: In some ways, that is no different from what normally happens with regard to European funding, but there is no doubt that it is not helpful. In the 2016-17 academic year, the funding that we are talking about supported about 4,000 full-time equivalent students in particular areas of focus. However, as I said, that was going to change anyway.

The consultation and the shared prosperity fund are potentially very useful, but it is not simply a case of rolling existing stuff forward. That would be bad. The closer it gets to the wire, the more difficult it becomes to rethink the sorts of things that we want to do to have the most impact. It is a difficult situation, but as I said, in some ways, it is—unfortunately—no different from what normally happens.

Gordon MacDonald: I have a final question. At the time of the fund’s announcement, it was stated that the UK Government would consult the devolved Administrations about how to spend it, which tends to suggest that it might not necessarily devolve its administration and evaluation. Would that create any difficulties, bearing in mind that we have these structures in place already?

Iain Scott: It would potentially create the same difficulties—to which I alluded—with the complexity of the administrative arrangements around the fund. If the fund was devolved, we would look to the Scottish Government to use the structures that are in place to administer it. That would be much more straightforward for us and for its customers.

Gordon McGuinness: Any new system would need to recognise the different structures in

Scotland, as our education system operates radically differently from the system down south. The Anglocentric programmes that came through the Department for Work and Pensions were designed without much reference to things such as the Scottish index of multiple deprivation or how some of the Scottish Government funds were released. There needs to be an ability to match with the Scottish Government's strategic intent.

Partners and the Government have done a lot of work around the inclusive growth model and how that impacts at a local level. We will also have our own welfare system, so, if there are initiatives targeted at supporting the unemployed, those will need to be able to align to the Scottish system, for want of a better term.

John Mason (Glasgow Shettleston) (SNP): As we consider the future, how would you say the UK should allocate funding around the UK? Assuming that Scotland has some control over that, how should we allocate funding in Scotland? Would you do it on a population basis? Would you do it on the basis of gross domestic product? Is there one simple measure, or does there have to be a mixture of measures?

Gordon McGuinness: There has to be a mixture of measures.

Carroll Buxton: I would say that there has to be a mixture of measures. As I said in one of my previous answers, GDP is one measure, but, if you are looking at addressing disparity and encouraging inclusive growth, you have to look at other aspects such as population density and demographics.

I am sorry, but I focus on the Highlands and Islands. Gordon McGuinness mentioned young people, and we need more young people in our region. Our ability to look at how we can attract and retain young people is very important, so I would very much like to see a mix of measures rather than our focusing on one.

John Mason: Even within the Highlands and Islands, the picture in Inverness is quite different from the picture in some of the remoter islands.

Carroll Buxton: Yes.

John Mason: Should the decision on how the money is spread around the Highlands and Islands be made in the Highlands and Islands, or should it be made externally and kind of imposed?

Carroll Buxton: We have said previously that place-based decision making is very good, as there are specific challenges. The Highlands and Islands is a region but, within that region—as you rightly point out—there are quite significant subregional differences, and the ability to make decisions that address those in order to deliver equity overall is very important. So, yes, I think the ability to make decisions more regionally is probably important.

Iain Scott: I mentioned regional partnerships. I think their role is to look at the detail of what the funds are used for in the regions, and I certainly see that role being devolved. Clearly, there would be a role for the Scottish Government in deciding the split of funding or resources across those regions, and I agree with other panellists that a range of measures would be appropriate for that.

John Mason: Within the UK, do you think Scotland gets a fair share at the moment? Should that just continue whatever our percentage is? I think that Wales gets a very big chunk, presumably because of need. Is Scotland's share within the UK reasonable?

Iain Scott: My understanding is that Scotland gets more than a fair share at the moment—it certainly gets what it deserves. I think that Scotland gets a higher rate than other areas of the UK at the moment.

John Mason: Is that because of need?

Iain Scott: Yes, and I would continue that going forward. Need is the main reason for allocating funds at a national level and within Scotland thereafter.

John Mason: Okay. As we think about the future, can you give me one or two things that you think we should continue with in the present system because they are good and one or two things that are not so good? I have already got the point about bureaucracy and the audit being one thing that we could trim down.

Also, we have received evidence—which I am trying to get my head round—that, on the one hand, people like the idea of a long-term commitment and knowing where we are going for 10 or 15 years, but, on the other hand, they want a bit of responsiveness so that, if there is a problem in Aberdeen, for instance, we can do something about that. I find it hard to see how those two approaches would tie in. Can you give me your thoughts on that as well, Mr Fairbairn?

Martin Fairbairn: That is very perceptive. You are absolutely spot on in saying that there is a tension, and it could at least be ameliorated by our having—both at the Scotland level and at the regional level—more natural flexibility in the planning and delivery of the programmes. Part of the issue is that you are trying to design something across the whole of Europe, which naturally takes a longer lead time to get in place, and then, once a programme is running, you can be talking about its delivering 10 years or so from the initial conception of it. If you are running things more locally—by that I mean at the Scotland level and then regionally—the timescale will naturally be shorter because you are dealing with things more within the country. I hope that the situation will improve going forward.

Iain Scott: As Martin Fairbairn says, we can use the structures that are in place flexibly to apply the core funding that we get at the moment, which, as somebody said earlier, is much more substantial than the current European funding.

One thing that I would keep is the partners working together and what the strategic imperatives are in the first place. That has worked very well in the current system, in coming up with the strategic interventions, and I would continue with that. As Martin Fairbairn says, the smaller scale of Scotland's needs compared to the needs of the whole of Europe should allow us that fleet-of-foot approach, if it is required, going forward.

Carroll Buxton: In terms of the visibility and certainty of funding in the longer term, the timescale is very useful, but it is important to retain the regional ability to flex that funding to address specific needs, so there is a balance to be struck.

Gordon McGuinness: Within the funds just now, we have that ability to innovate at scale. I would hope that any new funding mechanism would enable that across partners and would encourage partnership working. We could learn more from the investments that have been made in the current programme and in the past. For example, there has been a lot of good work around equal opportunities, gender diversity and help for people with disabilities. We probably also need to think about the issues around match funding of programmes, which tends to give rise to complications, particularly in the current financial environment. There needs to be a cleaner allocation of resource.

John Mason: Would you just give the grant to somebody and expect them to match fund it?

Gordon McGuinness: There will always be a case for co-financing, but the current format of match funding—the criteria—makes it overly complicated, particularly for partners down the delivery chain. That has been highlighted in some of the feedback that has been noted in evidence.

Fulton MacGregor (Coatbridge and Chryston) (SNP): Good morning, panel. Most of you have touched on what I am going to ask about. How can we ensure accountability and transparency in future programme design while reducing bureaucracy?

Martin Fairbairn: A large chunk of whatever we would be doing would be around the delivery of courses for young people in the college and university sectors. We have a system, which has been very well established over many years, for both allocating places and funding and then ensuring that there is accountability coming back up the line. I am quite confident that we will be able to use that approach to learning and teaching in the future. Indeed, as I indicated earlier, we have been trying to focus on using that established approach in relation to the money that we are allocating now.

Some of the wider stuff that we are on the edge of getting into with European funding—around innovation, working with universities, colleges and business to help that territory—is a bit more challenging, because it is less easy to have hard measures for that in terms of outputs. Therefore, that is one of the areas that we need to think quite carefully about going forward—we must not just replicate the approaches that have been used in the past—if we are to get the right balance between getting an impact on the ground and ensuring accountability back up the way, particularly in terms of impact and output.

One last thought on that, in terms of impact and output and things like innovation, is that we may need to decouple the accountability at the level of the individual organisation. We are looking for an individual organisation to deliver the activities that we asked for. However, when we make an overall evaluation at a national level, it is more about our asking partner organisations what the impact has been on the economy. That is a bit more difficult to associate with an individual organisation, but we can certainly see something at the broader programme level.

Iain Scott: I return to what a few of us said earlier. Using the structures that are currently in place more, over the first three years of the current European programme we should receive around about £56 million in funding, which will go towards our overall expenditure of about £900 million in funding that goes through Scottish Enterprise. I feel that we are as accountable and transparent on that and on the rest of the funding in there as we are on the European side of things, but the bureaucracy is an awful lot less. If we could, in some way, allocate funds into our existing system with clear priorities that have all been agreed by partners, and if we could then be held accountable for that as a whole, as opposed to being held accountable for specific pots of funding, I think that that would reduce the bureaucracy without reducing the transparency and accountability.

Carroll Buxton: I agree with Iain Scott about some of the structures that are in place having very robust accountability and governance processes. We should make best use of those structures.

On the development aspect, I think that future development involving regional partnerships—which Iain Scott has touched on—other regional bodies and all the stakeholders that we work with across our remits to inform the development of the programmes is quite important in terms of transparency and understanding the direction of travel across the piece.

Gordon McGuinness: In any future programme, there is going to be a different dynamic. If it is around the shared prosperity fund, Europe will play a reduced role but the UK Government will probably set out some of its priorities. The dynamic of an initial piece of strategic work will change. If we rewind to 15 years ago—you will hear about this from Malcolm Leitch, who is on the next panel—partners from the ground level built things that they called single-programme documents. We may not always have agreed with the final product, but everybody had the opportunity to contribute to what was a very open and transparent process. I think that there is merit in that approach.

In terms of accountability, again, there would be a different dynamic. A lot of the accounting procedures come through the European Commission, so we would hope for a simplified process in which it should not be overly complicated to agree procedures and guidelines for expenditure.

10:30

Jamie Halcro Johnston (Highlands and Islands) (Con): There is no need for Carroll Buxton to apologise for focusing on Highlands and Islands issues. As a Highlands and Islands MSP, I always want to hear about them.

A lot of the issues that I wanted to talk about were related to the regional aspects, which have been covered at length. I was going to look at wider regional economic policy in Scotland and how you think it will look going forward. What roles do your organisations have in that, and how might it fit in with the new shared prosperity fund?

Gordon McGuinness: I do not mean to be evasive, but there is very little detail on what the shared prosperity fund will be—its focus, how much is going to be in it and how it will be disbursed. I have spoken with colleagues in the Scottish Government, and they are equally frustrated at the lack of progress.

However, through work that SDS is doing with partners around regional skill assessments to understand what is happening within a regional economy, what the demographic profile looks like, what the key industrial sectors are and where there will be growth and where we might face challenge through automation, that evidence base will be there and we will look at it as we move forward.

Where are the opportunities for economic growth and inward investment? We do not want to skew that information. Where are the areas of really hard deprivation? There is not going to be a miracle cure with the information that we have, so we need an intensification of the work to find different solutions. I do not know what the shared prosperity fund will bring, in terms of instruments and vehicles, but we have developed a sound evidence base on which to judge those future actions.

Carroll Buxton: We have an opportunity to really engage and to influence the development of the fund and the way in which we look at regional needs, using evidence to support that, to ensure that whatever comes next reflects the different challenges across Scotland. We are a small country—we have said that—but there is quite a lot of disparity, and we need to grasp the opportunity to influence the development of the fund.

Martin Fairbairn: You touched on the future direction of regional economic policy. That is not my expert subject, but—in general terms, and picking up on something that Gordon McGuinness said—I think that there are two angles on that.

First, in relation to people who are not in the workforce or who are finding it difficult to be in the workforce, there has been a lot of focus, over the past few years, on youth unemployment. I am not saying that the problem is solved, but the situation is certainly different now, and the groups that we need to focus on now are the really hard to get to—the really hard to help into employment. That is going to change the nature of that activity going forward.

Secondly, going back to something that we have touched on before, the nature of the economy is changing. In very crude terms, that is down to automation and so on, but there is a much wider set of impacts. The situation is different not just in each broad area of Scotland but, as Carroll Buxton eloquently emphasised, even within those regions. Therefore, we need to become more laser focused in the sorts of programmes that we have going forward.

Iain Scott: I may have touched on this earlier. I would like whoever is looking at how the shared prosperity fund is allocated to ensure that it is done in the simplest way possible. To me, that would involve looking at a high level across the main regions of the country and then allowing the fund to be devolved to the areas that understand the local and regional economies, with mechanisms being put in place to support those. I would expect an allocation to be given to Scotland and Scotland to look at how it would allocate that across the regional partnerships, letting the regional partnerships decide the right things to do to make a difference to their local economies.

Jamie Halcro Johnston: Recognising the importance of the European structural and investment funds at the moment, the key thing for the new system going forward is to get rid of the issues that we face around flexibility and the like and to ensure that there is co-operation and collaboration in doing that.

The Convener: I thank all the members of our panel for coming along this morning, and I suspend the meeting to allow a changeover of witnesses

10:34

Meeting suspended.

10:40

On resuming—

The Convener: Good morning again. I welcome our second panel in our inquiry into European structural and investment funds: Alison Cairns, head of the European unit at the Scottish Council for Voluntary Organisations; Malcolm Leitch, economic development manager at Glasgow City Council, who is representing Scottish cities; and Dr Serafin Pazos-Vidal, head of the Brussels office for the Convention of Scottish Local Authorities. We look forward to hearing your contributions to this morning's evidence session.

I will start with a question that I put to the previous panel: do you have specific examples of the European structural and investment funds being used to promote in Scotland what is referred to as inclusive growth? You might want to give us your understanding of the definition of that term, which I think has slightly eluded a number of people.

Malcolm Leitch (Scottish Cities): Thank you for the introduction, convener. I know that you had an evidence session with the cabinet secretary last week on the definition of inclusive growth, so I do not want to answer that. However, I think it is important to be aware that, at a European level, inclusive growth is one of the three pillars of cohesion policy, along with sustainable growth and smart growth. It is very much woven into the current European structural fund programmes in Scotland.

Scotland's cities, and indeed most local authorities, apply that in practical terms through a number of strategic interventions on which they lead. All the Scottish cities and most local authorities lead on employability pipelines. Although we heard a lot in the earlier session about the very welcome fall in unemployment that has happened over the past few years, we still face a lot of issues around economic inactivity, particularly in some of the more built-up areas of the country. Dealing with economic inactivity as much as with a lack of employment remains a really important focus for our employability offer within Scotland's cities and more generally in local authorities.

The other interesting thing, which is a bit of a novelty in the current programmes—it was not quite as explicit in previous European programmes—is the commitment to spend a good chunk of money from the European social fund programme on trying to address issues of poverty and social exclusion. Scotland's cities and most of but not all Scotland's local authorities lead interventions that are designed to get people engaged in economic life in their communities.

Allied to that, but more on the demand side, are the various business competitiveness interventions that are delivered through the business gateway geography in Scotland. It is very much about trying to create local job opportunities, which expanding businesses in our areas will create if they are given the right type of support at the right time.

I will end on a particular cities dimension. The preamble to the report talks about the restrictions within which we must work in terms of what we use European structural funds for in Scotland, which is a region in European terms. One example of where the Scottish cities alliance has been innovative is a small intervention on smart communities, which is looking at improving quality of life and public services in Scotland's cities through, for example, initiatives to roll out further smart lighting, smart waste and smart delivery of a range of people-based public services. We have used Scotland's cities, and indeed many local authorities, to the maximum that we feel is possible in meeting our shared objective of pursuing what we understand to be inclusive economic growth.

10:45

Alison Cairns (Scottish Council for Voluntary Organisations): I will start with something that did exactly what it said on the tin. In this programming period, the third sector division in the Scottish Government delivered a social economy development programme, which looked at social innovation in civil society and growth in the social economy and third sector organisations in relation to the delivery of social policy in their communities.

If we leave to one side how long it took for the programme to come in and the very little money that there was to deliver it, we can see that it was really good and it is beginning to deliver real benefits. I congratulate the division on what came out of the other end of the programme—indeed, it is still on-going. It is looking at grass-roots innovation in communities and smaller organisations, and at investing in the growth of organisations that work on poverty, financial inclusion and employability in communities. It is a very good example of hitting the inclusive growth nail on the head in terms of the policy ambition from the Commission, investment in social policy themes and what it was supposed to deliver.

It is sad that the third sector division has such little money to spend on those objectives. The programme was 100 per cent funded on eligible costs, but it is completely oversubscribed. There are so many projects that could have been funded and were fit for purpose, fantastic and would have met the outcomes and accelerated spend on the programme, but the third sector division did not have enough money to match the funding. However, it was definitely a very good programme that focused on innovation within the sector and within growth.

Dr Serafin Pazos-Vidal (Convention of Scottish Local Authorities): Perhaps the biggest context, which has not been commented on yet, is that local authorities are responsible for leading about one third of the structural fund spend in Scotland, which is a significant share—I think that, historically speaking, it is the highest-ever share. Of course other issues will be discussed later, but, on inclusive growth, something that is perhaps not appreciated here in Scotland—my work involves a lot of discussion with colleagues from other countries—is the community planning partnership employability pipelines. That is a system of continuous reporting for jobseekers from the moment that they are away from the market to the moment that they are in employment and post-employment. That is interesting, because it is unique—you do not see it in most other countries.

The history of that is that some of the assumptions in the way that the rules operated had to be re-engineered. That was not even in this period; it was in the previous period. The EU rules were not meant to provide a continuous level of support through different stages of a jobseeker's application. However, as I said, one of the positive things in Scotland is that, notwithstanding some of the constraints that come from national or European rules, there are examples of where you can re-engineer things to make sure that you do something innovative—in this case, on inclusive growth.

Gillian Martin: Good morning, panel. I am particularly interested in some of the detail in the COSLA submission around the legal certainty of the existing programmes under Brexit. I noticed that you have particular asks of the European Union (Withdrawal) Bill with regard to guaranteeing a replacement for European structural funds. Will you elaborate on those?

Dr Pazos-Vidal: Yes. There are three elements to that. The first is that, as we know, the Treasury and the Scottish Government considered the issue of guaranteeing that the current EU funds could be spent even after Brexit day, in order that they would reach a natural conclusion, in the same way that they would have if we remained in the EU. That is absolutely correct. Perhaps you will hear differing evidence on that during this inquiry, but there is no legal guarantee on that, just a political commitment. It will have political weight, but the structural funds are based on law.

The operational programme of Scotland is a legally-binding contract between Scotland, the UK and the EU. Therefore that level of legal standard is necessary. The European Union (Withdrawal) Bill includes some provision on issues related to agriculture, and there will be a separate agriculture bill. When it was introduced, we were looking for similar legal certainty, set out in black and white, that the current funds will be continued and even, as you mentioned, perhaps some indication for the future. Interestingly enough, the European Union (Withdrawal) Bill is about the future—what happens after Brexit day, not what happens now in the transition period.

However, that did not happen. For the moment, our biggest hope for ensuring legal certainty that will reassure project managers and delivery bodies is that the withdrawal agreement, which, in spite of the name, is essentially a treaty between the UK and the EU on managing the aspects of withdrawal, has provisions in paragraphs 128 and 129 to give a legally binding guarantee that the current funds will be spent as normal. Given that the agreement is a bilateral treaty between the UK and the EU, which will have a legally binding effect in the UK, that is the level of certainty for which we would wish. We hope that the withdrawal agreement is agreed on time.

Gillian Martin: What does the uncertainty about the replacement funding for European structural funds mean for the other panellists and the people that you represent in relation to planning?

Alison Cairns: On the finance, lots of third sector organisations are delivering on key policy areas with, and on behalf of, the Scottish Government, whether in employability, combating poverty or social inclusion-type activities. Obviously there is the potential for there to be a hiatus—a gap between what is current and what comes next. There are issues around the direction of travel for some of that social policy area—we are not talking much about it. There are genuine issues about participation and what comes next for the sector, which is leading on these sorts of policy areas. There are some quite big questions, not least about the potential for organisations to no longer be able to continue what they are doing.

Gillian Martin: The suggested replacement for the European structural funds is—one of my colleagues will remind me of the name of it—

John Mason: The shared prosperity fund.

Gillian Martin: —the shared prosperity fund. Has there been any indication that inclusive growth will be one of the tenets of that new fund?

Alison Cairns: We are involved at a UK level with what we call our sister councils—the Wales Council for Voluntary Action, the National Council for Voluntary Organisations in England and the Northern Ireland Council for Voluntary Action—and quite a grouping of third sector organisations that operate predominantly in England and have some of the bigger employability contracts from the Department of Work and Pensions. We have been involved with them for some time, talking about the shared prosperity fund. We started with conversations with the Department for Exiting the European Union, the Department for Digital, Culture, Media and Sport and the Department for Business, Innovation and Skills—all the people who are responsible now and who are also responsible for the next steps.

As far as our group is concerned, the conversations that we have had so far have been about there being no regression from the status quo—we do not want to lose any focus on the current investment priorities for social policy. That is the line that we are holding, and it is the same for all of those involved in our group, who have quite a lot of support within various Government departments for that position. Indeed, in the conversations that they are having, it is as if that is the way forward, certainly in relation to the DWP and others.

Malcolm Leitch: In terms of the UK shared perspective, the only public statement containing any detail is a paragraph in the Conservative Party's manifesto for the general election that took place this time last year. It makes some right noises about doing something for inclusive growth and for communities that are left behind, which is great, but I am afraid that, until we get a more substantive proposal from the UK Government, it will be very difficult to see the extent to which the aspirations—which I think most people here would sign up to—will be translated into practical action on the ground. We have to wait for the UK Government to elaborate on how it expects growth activities within the UK shared prosperity fund to be delivered on the ground and in practice.

Dr Pazos-Vidal: There are three levels to the definition of the UK shared prosperity fund. One is the political commitment, which was in the manifesto. The second is the policy conception—in other words, the extent to which the people who are currently dealing with structural funds are involved. We understand that the intention is to continue the good elements of the structural funds. The final element is the senior people in the ministries and the ministers themselves agreeing with the initial recommendation. That will have to be played out in the next months, before the consultation comes out.

Gillian Martin: Your submission mentions that COSLA has met and had discussions with DExEU. What was the outcome of those meetings?

Dr Pazos-Vidal: Yes, we have met DExEU and the DWP. We have also met local government managers at different levels of seniority over the past year and a half or so, and we can confirm that they are working on this.

However, let me go back to the analogy of the three levels. The problem is that a lot of preparatory work needs to be done, but until the big political issues of Brexit—the framework and the customs union—are settled, all the other things are not in the Cabinet's in-tray or on ministers' desks. It is quite unlikely that ministers will discuss the issue in detail. Briefings are being prepared for them and so on, but as far as we understand they have not yet discussed how they want the UK shared prosperity fund to go forward.

One thing that is clear to us—I think that we mentioned it in our submission—is that ministers will be keen to have an outcomes-based result. It is not about being fixated on keeping the structural funds, albeit under a different name, and financing exclusively through domestic routes. They will be keen to look at more of an outcomes-based approach and how that fits with the general picture of the strategies that the UK Government is developing.

The second element that we are concerned about—we do not hide this at all in our submission—is the fear that, in defining the UK shared prosperity fund and how it is administered or organised, we might see a replication of what is happening with the withdrawal bill and the continuity bills, and the apportioning of powers that are returning from the EU. We can easily see a similar tension being played out. We are quite explicit in our submission: we think that that will not be helpful and that it is better to have a system that, in terms of dividing responsibility between the UK and the Scottish Government, will not be too dissimilar from the structural funds system in that regard.

I have to say that, from a comparative perspective, the UK Government has been exquisite in terms of letting Scotland do its own thing—much more so than any other federal

Government would be, be that the German federal Government, the Austrian federal Government or the Government of any other member state that has devolved systems. Hopefully, unlike what has happened with the issue of the returning powers, we can have a more stable arrangement for the governance of the UK shared prosperity fund.

The Convener: Before we move on to questions from Kezia Dugdale, I have a question for Malcolm Leitch about a point that he mentioned when he was asked about inclusive growth. Inclusive growth might sound like a good idea to a lot of people, but it is more difficult to define. You commented that the European structural funds have a definition as one of the bases. What is your understanding of the definition of inclusive growth for those purposes?

Malcolm Leitch: I do not think that the EU has a single fixed definition of what constitutes inclusive economic growth. It is like an elephant: everyone knows what it is, but finds it very difficult to describe. [*Laughter*.] It is about improving opportunities for engagement in economic life for all members of the community, and indeed for the communities that have been left particularly vulnerable as a result of some of the processes of industrial change. We heard from our colleagues from the Highlands about the impacts of demographic change, for example; we also have pressures in cities that arise from demographics. The whole point is to make sure, first of all, that growth takes place, but there has to be a degree of equity among communities and through taking a place-based approach. That is the EU's philosophy of what constitutes inclusive economic growth.

The Convener: That was helpful—I hope. I am not sure that, with this elephant, we can all say that we know what it is. I think that the issue is possibly one that we are all struggling to come to terms with, but your comments were very helpful.

Kezia Dugdale: I have compared the Scottish cities written evidence with the SCVO evidence, and I think that you are basically saying the same thing but in very different language. Scottish cities talks about the requirement for

"a simplification of the processes",

the

"Need to consider the requirement for match funding"

and the need to consider

"a degree of flexibility".

Meanwhile, SCVO really goes for it, saying that this is frustrating. Is it just a language question, or is SCVO more exasperated than Scottish cities? Discuss.

11:00

Malcolm Leitch: I will start off; no doubt, Alison Cairns will give her perspective on the points that were raised in the SCVO submission.

It is important to note that the Scottish cities submission is very much looking to the third set of questions that the committee posed about what follows after, albeit that that needs to be informed by what has happened before. The view taken by a lot of organisations, and not just by SCVO, was that attention should be drawn to some of the pressure points that have characterised the delivery of the current programmes. I am thinking, for example, about some of the points made by the Scottish local authority economic development group in its submission. I do not pretend that some of the challenges in delivery, such as the issue of match funding, which has been an important constraint in delivering the programme, do not exist. However, the focus in the Scottish cities submission tended to be more on how we could learn from that in getting to a better, simplified framework.

Kezia Dugdale: Before I bring in Alison Cairns—and I am desperate to hear from you, Alison—I want to say that it might have been better if Scottish cities had been more blunt, because had I not read SCVO's submission, I would not necessarily have got that vibe, so to speak, from Scottish cities.

Alison Cairns: I guess that we are not constrained by anything. You are right that there is a high degree of frustration. This is probably my third structural funds programming period with the sector in relation to objective 1 status, and we are getting progressively worse; nothing is getting better. The programme has been hugely characterised by frustration. We started off with offers of help, support, expertise and advice, and we were met with brick walls and radio silence, and being sent down another tunnel. We have offered good practice advice from other parts of the UK and from around the world to help accelerate spend in the programme, and guidance on rules that are really blockages. We have tried to articulate that what happens on the ground affects the politics—with both a big P and a small p—as well as policy and outcomes, and this is where we have arrived.

We are plain speakers. We are at the business end. This is the end of it, and there are massive implications for what comes next following Brexit, so we need to be very clear. SCVO is a membership organisation and we have to represent and advocate on behalf of our sector and our members, who are equally frustrated. If you look at all the programmes, or certainly the last three since 1999, you will see a decrease in participation from the third sector. That is largely because of the interpretation of rules and the barriers that are put in the way of participation and spending the money.

We have a risk-averse administration process that has become more and more risk averse—the process is administered rather than there being a strategic ambition or strategic ownership. There seems to be no policy ownership. It feels as if it is locked away in a broom cupboard. To a degree, even some of the officials are struggling—they are drowning—having tried over the years to get some sense of ownership across Government.

Our submission is our last pitch. It is plain speaking, and it is saying that this is where we are.

Kezia Dugdale: I think that you came into the room after I put some of what is in your submission directly to SDS, so you will not have had the opportunity to hear its response. You should look at the *Official Report*, because I am going to paraphrase what was said, but it was along these lines: "SCVO, you are crap at your paperwork, and that is the reason why everything is delayed and frustrated". I cannot imagine that you would accept that as a rationale.

Alison Cairns: No, we would not accept that at all. We have countless bits of evidence, not just from ourselves but from other parts of the sector, showing that people have waited for weeks and months with no response. We have asked for organisation charts and we see no customer management system; there is no system for managing this.

As I said, we absolutely would not accept that rationale. In fact, if the third sector division were asked, I would hope that it would say that the programmes that it has been implementing are going well and doing well. It is a case of the systems or programme terms that are put in place. The SDS programme required organisations in the sector to bring their own match funding to deliver employability. That is horrific pressure. Then there was a question over which match, and most of the organisations that are delivering in that programme are using SDS match funding. That is bonkers. It should have been top sliced, globally managed and 100 per cent eligible cost funded. That programme has been trying to fit a square peg into a round hole.

To me, that is just about project management, and there has been very poor project management. We have heavily criticised that, because right at the start we said, "You have £30-odd million to spend on employability funds. Top slice it, create a fund and make it easy for yourselves to administer, like the third sector division has done". I accept that that would be hard to do, given that there would be some new learning. In fact, the Scottish Government, as the managing authority, underestimated the skills and knowledge required by various Government agencies and departments in taking on that work, hence it took nearly two years before a penny was spent. However, that suggestion, which we made at the start, was completely ignored, and I could sense that those involved in that programme felt that they could not do anything about it. There did not seem to be anywhere to go to make that happen for them. The staff have been struggling hugely to administer a programme that requires the sector to bring match funding—but where can the sector get match funding to deliver employability nowadays? It is really difficult.

That has also happened with local authority provision. The money has not been spent because in the procurement process voluntary organisations that deliver employability are told that they have to bring their own match funding. Voluntary organisations do not have that. Therefore a system has been created in which there is money that comes from somewhere else and money that comes from the agency, and those involved have to manage those two things, whereas they could have managed all the money simply and easily. I would advise them to look to what the third sector division did—it took a long time to get there, but the programme that it has put in place is good.

Kezia Dugdale: I have two more brief questions, convener, and I want to focus on SCVO's submission. I think that it is important to draw out some of the detail that Alison Cairns has identified, because the whole point of our discussion is to learn how things could be done better than has happened so far.

In your submission, Alison, you talk about the problems being of such an extent that they have resulted in financial hardship for the organisations involved. Can you tell us a little bit more about that? I appreciate there are some sensitivities there, but an example would be helpful.

Alison Cairns: In previous programmes, there used to be advance payments—and there still are, right across the EU; this is just something that we have chosen to do differently. Organisations could get up to 30 per cent in advance payments, so cash flow was available to them. As it stands right now, organisations have to spend their money, evidence that and then get some money back. However, the participant guidance on evidence, eligibility and so on has changed. There are issues with the rules: an organisation might spend some money on activities that it then cannot claim back for a particular individual. However, that is a very operational issue.

There are cash-flow issues. There always have been, but they have got worse, because there are no advance payments here, although there are in other parts of the UK.

In the current programme, there is good practice in the third sector division. There are other programmes that I do not know, but I believe that the stuff around the green infrastructure has been quite good as well. I am less familiar with that programme, but I believe that there has been some good activity there. There seem to be no conversations about what is working well for beneficiaries and applicants.

Kezia Dugdale: I have heard what you have said about best practice existing in the system in terms of the third sector division and the way in which that is managed, but is there a more fundamental problem here? Is SDS the right agency to be operating such a fund in the first place?

Alison Cairns: I know that we have pointed it out, but it is not really the bad guy. It was handed a fund that it thought that it was just going to administer, and I think that the process has been quite an eye-opener and a shock to it.

Kezia Dugdale: Who are the bad guys?

Alison Cairns: The managing authority, which is the Scottish Government.

Kezia Dugdale: The Scottish Government is the bad guy.

Alison Cairns: For want of a better expression.

Kezia Dugdale: It was your expression.

Alison Cairns: SDS is not necessarily the only one, but it had one particular programme that could have been done better, because of the way in which it was managed.

Kezia Dugdale: The issue is more fundamental than which agency does it.

Alison Cairns: Yes. I would say that the agency would probably have struggled quite often to get guidance and support from the managing authority.

Andy Wightman: I have a brief follow-up to Kezia Dugdale's line of questioning to Alison Cairns, who said that, over the three programmes that she has been involved in since 1999, things have steadily got worse. Given that direction of travel, the risk averseness and what we heard from the previous panel about the administrative complexities in the system, it sounds like she would not want another programme like this one.

Alison Cairns: Certainly not in terms of how it is administered and managed. There is no need for a programme to be managed in this way.

Andy Wightman: There are clearly lessons to learn, which I think some of my colleagues will get on to a bit later.

The submission from Scottish cities says that a loss of structural funds would have a significant impact on the ability of local authorities to deliver services. Can you give us some examples of what that impact might look like?

Malcolm Leitch: Yes. Obviously there are a lot of unknowns in this equation, but if we went from structural funds to zero, for example, there would be a major impact on a lot of city economic development activity as well as broader local authority economic development activity. It is difficult to be absolutely precise about the impact, but EU structural fund support probably accounts for somewhere between 10 and 25 per cent of local authority economic development and employability spend. The sudden withdrawal of that would have a significant and material adverse impact on the ability of local authorities and cities to deliver a range of economic development services to their communities.

Andy Wightman: Are there any other impacts, other than on employability?

Malcolm Leitch: Yes—poverty and social inclusion, business support and what I alluded to briefly at the start, which is the ability to do things differently using innovation and technology to provide better services for the communities we represent.

Andy Wightman: Witnesses have raised the question of the £22 million that has had to be handed back. I think that the SLAED group alluded to a number of reasons for that. Without getting into the specifics of that money, what lessons can we learn about how to design a programme such that people do not have to hand money back?

Alison Cairns: There are blockages in different parts. We can see the programme as a sort of continuum, and there are issues to do with the pace of starting and implementing a programme. While the programme is in operation, there are additional national rules created—they are not European rules, although they are within a European framework. We have provided evidence and guidance and recommendations on some of those rules over the years. Those rules are blockages for money going out the door. The interpretation of the rule is an issue; it can be very narrow, depending on the particular official who is interpreting the rule or what their understanding is of what organisational development or organisational growth is. There is not a good independent arbitration service either for some of those issues.

11:15

Malcolm Leitch: It is important to understand the full plumbing of how the funds are drawn down from the European Commission under these programmes. It is not just a matter of committing the money, although that is really important. The Scottish record of having just under half the programmes committed by the end of 2016 was not too bad; it was broadly comparable to other programmes across the EU. There is no particular issue with getting money approved. The real sticking point has been in being able to flush the spend that is taking place on the ground through the system and getting it paid out. It is only once the Scottish Government has paid the lead partner that it can declare that to the European Commission. That declaration to the Commission is the basis for determining whether the so-called N+3 target will be met.

Another factor is that, when you are claiming the money, it is not just a case of saying, “This is how much we have spent.” There is all the related performance and beneficiary information that is required. It is a major task to put in a claim on an information technology system that is not even yet totally fit for purpose. Even if we manage the logistics of getting a claim in, as part of the management control system to which the Scottish Government has committed itself with the European Commission, before any payment is made it has to verify a sample—typically about 20 per cent—of the transactions that were claimed. That is both an expenditure verification through to bank statements and also a verification of outputs, for example to check whether the individuals who are being claimed for as part of a submission were eligible.

It takes a significant period of time from when a claim is physically uploaded to when it is verified by the Scottish Government and then paid. If we are trying to look ahead beyond Brexit, we will certainly want a less cumbersome system, because the implication of that has been that the Scottish programmes, both the European regional development fund but more particularly the European social fund, did not meet their so-called N+3 targets in 2017. That will be a feature for every succeeding year of the programme; it was not a one-off.

Dr Pazos-Vidal: To complement that and contextualise it in a bigger picture, what we had with the structural funds—and I was involved from the very outset of the programme design and from the very moment of initial ideas and I was involved in the drafting of the regulations in Brussels—was a number of paradoxes or contradictions in Scotland. On the one hand, we have the Scottish Government’s openness to partner with local authorities and others in a more ambitious and comprehensive way than has ever been attempted in the introduced programmes; on the other, there is its wish to control and to make sure that everything fits into place. Inevitably, that creates a tension.

The second paradox has been that the Scottish Government has been at the same time both a rule maker—for instance, in designing the national rules—and in many ways and mostly a rule taker. The problem with the rules coming from Brussels is not even that they are, as was said in the previous panel, for the whole of Europe. I have been in the middle of that and essentially it is entirely transactional. Why there is 20 per cent on social inclusion and not 25 or 30 per cent or whatever is sometimes not based on any factual issue; it is a purely transactional thing. Trying to translate that into the reality on the ground is difficult at the best of times.

There are also a few other aspects, such as the tension once again between innovation and control. For instance, as is mentioned in some of the evidence that has been submitted to this inquiry, the Scottish Government has been very proactive at the very beginning in wanting to introduce simplified cost options—basically to have a simpler, less bureaucratic outcome-based policy that pays by results and so on. That was not possible because it was not reassured that the guidance and the ideas being spelled out from Brussels were clear enough. I sympathise with that because I was also involved in that. It is true that, in some other parts of Europe, they have gone ahead nevertheless, but it is understandable that, if you are trying to be innovative but the innovation framework that you are given is not clear cut, you will have problems with that.

That is not to dismiss any responsibility that lies with the Scottish Government, but it is this complex system thing that has led to us ending up in the situation that we have. I believe that it is something that we can infer from the 20 or so submissions that were received for this session, which were pretty consistent. There are differences in emphasis and tone, but whether it is quangos, Scottish Government agencies, local authorities or civic actors, the understanding of what the problems are is pretty consistent, which I think contrasts with previous inquiries that we have had.

Andy Wightman: Alison Cairns talked about the rules and the interpretations of the rules and what officials say. Over the past years, have you attempted to escalate any of those concerns beyond officials to hold ministers to account?

Alison Cairns: Yes, we have. We have provided evidence to other committees about the programme. We have written letters to the minister responsible, Keith Brown. We have met him over the issues that were in the letters about the management of the programme and the interpretation of rules and a host of issues, not least the lack of pace and urgency in the programme starting, spending money and being implemented. It is all out there on the record.

Andy Wightman: Broadly speaking, have you had a sympathetic response?

Alison Cairns: We have always been met and heard. I will read later the comments that Kezia Dugdale mentioned. That is an illustration of the adversarial, combative and defensive relationship that is established around this process, which we do not have in other areas or with other funders. Whether it is any of the big trusts, the lottery or anybody we engage strategically with on these issues, we just do not have the same combative, adversarial pushing away of other voices in the process. That is a good illustration of how the relationship in the structural funds process is characterised for us and our sector.

We have always been met and listened to. We have not always had a reply or an acknowledgement or been responded to. For example, when we wanted a rule on staff time changed to allow smaller organisations to have staffing costs covered, it took the best part of 18 months to two years to be changed. It was then never communicated out to anybody and it has still not been implemented. Although it was agreed at a joint programme monitoring committee quite some time ago, it has still not been implemented.

Andy Wightman: I have a final question for representatives of local authorities. COSLA's submission talks about the Interreg programme and interregional co-operation across Europe. Dr Pazos-Vidal, you mentioned earlier that you are in negotiations with the UK Government to try to get things such as structural funds put on a legal basis in the withdrawal bill. Can you say more about the conversations that you have had with the UK Government about programmes such as Interreg, which is a very small programme, of course, and your ability to be able to carry them forward after Brexit?

Dr Pazos-Vidal: As I said earlier, we have had a number of conversations and exchanges at different levels. Specifically on Interreg, we even shared with the UK Government evidence that we have collected or have elaborated thanks to support from our colleagues from non-EU members such as Norway and Iceland that explains very clearly the legal simplicity of how it is entirely possible for the UK to opt into these programmes. It will be UK money spent in the UK but in co-operation with others; the moneys will not go away. There are no legal issues in terms of the European Court of Justice and so on, so it is for the UK to do and it is really not cumbersome. We even did an estimate of how much it was; I do not remember off the top of my head, but for an economy the size of the UK's it is minimal compared to the money that is not going to be sent to the EU anyway. It will have a significant effect in terms of ensuring that this partnership is developed. After all, we are still going to be part of the European continent and the people who we will learn from and co-operate with will still be, in most cases, our neighbour countries and communities.

That is why we are urging the UK Government, particularly at ministerial level, to include an opt-in for Interreg as one of its negotiation items. At the moment, as you know, the UK Government has already formally suggested that it will be open to continuing the horizon research programme and Erasmus but not some of the other programmes that would be interesting. We are asking it to include Interreg as a negotiation item, because the way that the current negotiation is going, unless the UK formally includes it as a negotiation item, that conversation cannot happen. When we met Michel Barnier—I was in the room—he was very open in saying that, as a former regional policy commissioner, he would, of course, be keen for the UK and Scotland to continue to have access to the Interreg territorial co-operation programme, but it is up to the UK to request that. The UK has not yet done that and, without that, the EU cannot react. At the moment, it is still coy on the other programmes, let alone on requests that have not yet been put on the table.

Colin Beattie: Some of the panel probably heard me referring to Scotland as a country that is small but has very diverse areas within it and diverse needs. I will ask the same question that I asked the previous panel. Are those needs—sometimes the unique needs of areas such as the Highlands and Islands—well catered for and well accounted for in the current range of structural funding programmes?

Dr Pazos-Vidal: That is a typical question that expects a particular answer. It depends on who you ask. More seriously, if our colleagues from local authorities, practitioners and experts are to be believed, they would like, of course, a system that is more decentralised than it is at the moment. At the moment there is no Scotland-wide programme, for instance, on structural funds. Until 2014, there was a separate Highlands and Islands programme, which, as was mentioned, people across the Highlands and Islands region will be very keen on. In the previous period until 2007, different parts of Scotland had their own separate programmes, such as the east of Scotland, the Highlands and Islands and the west of Scotland. Of course, there will be an expectation that anything coming in the future will be as decentralised as programmes were a long time ago.

One of the reasons why the programme has become more and more Scotland-wide is that the EU and European Commission will not welcome a proposal that does not provide value for money. Scotland, like many other developed countries, is getting less and less from the European funds, so having separate programmes is less justified in management terms. The Commission would rather have something more consolidated, but if you ask local authorities, they would like a system that is local or at least as regionalised as is feasible in terms of cost effectiveness.

Malcolm Leitch: The short answer to your question is no. This is the least spatially differentiated European structural fund programme that I can recall and I have been in this game longer than Gordon McGuinness has—he talked about being in it for 20 years but I, sadly, have been in this game for 30 years. It is not just about the difference between the Highlands and the Lowlands, important though that is. There are a number of regional economies in Scotland, as your call for evidence makes explicit.

I was very heartened to hear the remarks from your first panel about using some of the emerging regional economic partnerships if we get decentralisation. As well as the south of Scotland—that is clearly a bit of a pathfinder project; institutional infrastructure is already in place in the Highlands and Islands—there are a lot of natural functional economic areas developing in Scotland, and this may be an opportunity to have a more regionally sensitive series of interventions to promote sustainable economic growth, rather than the somewhat centralised thing that we have.

People tell me that in the current structure some of the things that we can spend money on do not particularly suit rural areas. Other people say that the current structure does not suit the more urban areas. In a sense, the current system of doing it pleases nobody fully. The spatial element is very much diminished from previous programmes. For example, there is no urban regeneration priority in this programme. Predecessor programmes going back several cycles of EU funding have had that, so that is a bit of an issue. There is an opportunity to look at the future and see how we can get properly regionally differentiated menus of support to assist inclusive growth in all Scotland's regions.

11:30

Colin Beattie: Carroll Buxton, who was on the previous panel, strongly emphasised the need for flexibility, which she thought was absent. When I asked the rest of that panel whether that was true across the board, there seemed to be a fair amount of consensus that it was. Does this panel agree?

Alison Cairns: Yes. Obviously, you need to be able to respond to changing political contexts and environments. In a longer programme period, things will change, whether those are issues around migration or financial crises or other things. A longer-term funding programme needs to be able to respond to those changes.

Your previous question was about whether the programme is meeting the needs of the whole region. The short answer is no, partly, obviously, because we are not spending the money. The programme is not meeting lots of needs because there are issues with how it is set up in Scotland. Our sector is struggling to access the programme in the Highlands and Islands. Very few third sector organisations have European structural funds money because of how it is being implemented. It is quite risky for smaller organisations, and the Highlands and Islands, particularly, and the Borders and other regions are characterised by small to regional-sized organisations.

We offered quite a few suggestions as to how some of those things could be addressed. Not the least of those suggestions were the very good examples of what is happening in local government around participatory budgeting. Participatory budgeting programmes could have been included as part of the mix, and match-funded or co-financed by local authorities, so that they were bigger participatory budgeting pots. However, our suggestions go nowhere. The issues around ownership, strategic ownership and ambition are barriers that prevent us from reaching the vision that probably lots of people have and want to achieve. There are lots of people on the same page with us, but there is a real challenge for us to achieve the vision.

Dr Pazos-Vidal: Very briefly, the structural funds, as the name says, are structural. It is about long-term, big societal ambitions for Europe, the UK and Scotland. Anything replacing them should focus on big societal ambitions or challenges. A lesson that we have learned is that we do not need to replicate the level of rigidity that we have had.

It should be possible for funds that are not coming from an EU regulatory framework to have more flexibility built in to the programmes. The short answer would be strategic, permanent objectives that last beyond the Government of the day. The challenge will be to ensure that we agree on a framework such that, no matter who is in power in London or in Scotland, people can sign up to the objectives over the course of several parliamentary terms and spending reviews, and then have built-in operational flexibility. In many ways, that is what is lacking in the structural funds at the moment.

Colin Beattie: Carrying on from that, how are current and previous programmes evaluated and how could that evaluation process be improved?

Alison Cairns: I think that previous programmes have used their technical assistance budgets to procure evaluation before and after, and some bits are evaluated during the programme. It has been different for each programme. That is quite a dated way of evaluating programmes, given the many different ways of doing live, on-going evaluation, using various technologies and methodologies. We have some great universities in Scotland that are doing evaluation in some really fantastic ways that do not feature within this programme.

Malcolm Leitch: The snag that we have had with evaluation is that, although we are spending money now, the results of that spend may not become apparent for a number of years. You might have to work with someone for perhaps two years before they get into a position where they can take up regular paid employment. The system that is set up is very good at capturing outputs: what the money is buying in terms of the number of participants, the number of businesses supported, the number of intelligent street lighting columns and so on. It is much more difficult to get at what the impact has been in terms of improving the performance of either the local or national economy. It is one of the bugbears for evaluators and it is not, to be perfectly honest, confined to European funds.

The problem that we have with the European funds is that, because it takes so long in the programming cycle to get them up and running, evaluators are always playing catch-up. We got the results of the whole series of evaluations on the 2007 to 2013 programme only last year, so we had the formal validation of what really worked in 2007 to 2013 only half way through 2016, by which time we were already busily trying to deliver the 2014 to 2020 programmes. There is a time lag issue in having evaluations that really make a difference on the ground.

Dr Pazos-Vidal: I will offer a further insight into how EU evaluation works. There are officials in Brussels drafting the regulations for the next programming period, post-2020. The regulations will be tabled on 28 May. Officials have been able to use only partial, initial evidence from the current programme, and have mostly used, as Malcolm Leitch just mentioned, evidence from the previous programme. That is because of how the reporting is done; it is not to say that there is not valuable information there.

How should we measure things in future, given our experience of the structural funds? The last time around, the Commission looked into making its policy what they call results-based. We urged them to look at something like the single outcome agreements and outcome-based delivery that we use in Scotland to roll out domestic policies. We also tried to get evidence from colleagues in other countries, and the interesting thing was that, in the rest of Europe, the notion of what an outcome is is lacking. In Scotland, we perhaps understand it more readily than they do. We had to try to convince the European Commission as to that approach, since it is clearly not properly understood outside the UK, at least in Europe.

However, because in the UK people tend to understand at policy level what an outcome is, and because outcome-based policy making is already part of the delivery landscape, we can build on that, and I think that we could build something that will be less bureaucratic than some of the frameworks that we have inherited from Europe.

Gordon MacDonald: What discussions have your organisations had with the UK Government about the introduction of the UK shared prosperity fund?

Malcolm Leitch: Very limited, is the short answer, and certainly nothing that would constitute a formal discussion. Glasgow is a member of the UK core cities network. What is now called, I think, the Ministry of Housing, Communities and Local Government—it was then just the straightforward Department for Communities and Local Government—had some sounding board-type discussions in the summer of 2017, but they were very, very preliminary, very open and the civil servants were much more in receive mode than transmit mode. They were just fleshing out the lie of the land and where the priorities may lie. It was, as I say, an informal discussion at middle-ranking civil servant level, so a long, long way from ministers.

As the previous panel said, the trick will be getting UK ministers to a proper consultation with a proper set of parameters. Of course, DCLG or whatever it is now called is not actually the lead on this. That is BEIS, the Department for Business, Energy and Industrial Strategy. That is the lead department for this portfolio in terms of the UK shared prosperity fund. Those are the key people and the key ministers that we hope, as Scottish stakeholders, to interact with fairly quickly to get this UK shared prosperity fund set up and, as the previous panel said, ready to run as the European funds tail off.

Gordon MacDonald: What about the other organisations? What discussions have you had?

Alison Cairns: First, I think that we are way off the pace in Scotland on this and we should be much more on the front foot in deciding what we think should be in the shared prosperity fund, but I will come back to that.

As I mentioned earlier, we are involved in a UK network on the shared prosperity fund, with our colleagues in England and Wales, and we have been relying quite a lot on them. They are talking to officials in various government departments as if this fund will go ahead. There will be a shared prosperity fund because it has been announced, but whether it is seen as the successor fund is another matter.

Gordon MacDonald: What level of detail have the discussions gone into?

Alison Cairns: They are talking largely about the European social fund, what it currently funds and what is good about it that they would like to keep. They have had very tentative conversations about who might manage the money and how the regions will play a part in England. I do not mean the local enterprise partnerships, just how regions and communities will play a part. They also managed to secure a one-day inquiry at Westminster on some of the issues and they are in fairly strong dialogue with the DWP and others that are involved in the nationally administered ESF in England.

We have been relying quite heavily on our colleagues for the conversations about what is happening with the shared prosperity fund. I know that there is a lot of politics to go, but in terms of a successor fund, that is its name and there are conversations around it. I feel that we need to up the pace for all of us and say, "This is what we think it should look like." We might have different views on that, but we need to put forward much more robustly and quickly our views about what the fund should look like, what the main policy areas are that we definitely and absolutely do not want to be removed, and what the levels of investment should be. The SCVO can say all those things, because we know what we want, but we need more conversations and ideas about not one ready-made, but a few ready-mades, rather than waiting for people to tell us what the shared prosperity fund might look like and then going off for another six or nine months and deciding that we do not like that and that this is what we want.

Dr Pazos-Vidal: I agree. We should not get fixated by the consultation or defined by the terms of its questions. We in Scotland should have our own ideas—each sector of Scotland as a whole—about what we would like the policy framework and the funding framework to look like and how far those should depart from the EU frameworks that we have now.

COSLA has had, as mentioned, a number of discussions at a number of levels, from permanent secretary to ministerial to senior officials. They are keen on looking at outcomes and on making those fit with UK Government long-term plans. That said, this is a matter of negotiation, just like the distribution of EU powers between Scotland and the UK. We have discussions bilaterally, as COSLA, with our peers in equivalent organisations from other parts of the UK. Notwithstanding that, we should also have a discussion here in Scotland about what sort of framework we would like, even, if possible, before the consultation comes, so that we have a common understanding here and we do not talk across each other when that consultation starts. That includes, of course, having an early conversation with the Scottish Government.

Gordon MacDonald: I accept that we should have the discussion here so that we know what to feed in to the formal consultation, but what impact will the fact that the consultation has been delayed until the autumn of 2018 have on the process? Scottish cities said that the discussions should take place as soon as possible.

11:45

Malcolm Leitch: A point that has been made regularly this morning is that there needs to be a seamless transition. As the European funds start to tail off after 2020, the new UK shared prosperity fund will need to crank up. If there is a dreadful last-minute rush, there is a risk that funds might not be spent as effectively as they could be. There needs to be a degree of buy-in through stakeholder participation. That theme was raised in a number of responses to the call for evidence. We need to do this properly. We need to get the right suite of stakeholders involved, so that there is a much better degree of buy-in with regard to what Scotland can do with the UK shared prosperity fund than there was with regard to the development of the structural fund programmes for 2014 to 2020.

The process of building such relationships and starting to work together as stakeholders is not something that can be done overnight. It requires a degree of resource commitment, in terms of money and staff time. We need the right resources to be able to drive forward that process so that, at the end of it, Scotland gets a UK shared prosperity fund that delivers for our stakeholders and for the people whom, ultimately, we are trying to serve—our communities. We should not underestimate the time that that process takes. We are talking about a whole new thing. It is very much the case that EU regional policy has acted as a proxy for UK regional policy over the past several decades, so a major change is required. No one should underestimate the challenges of putting together and implementing a new funding and regulatory regime to ensure that there is a smooth transition and that delivery of the support that our communities need does not stop.

Gordon MacDonald: The current funding programme will end in 2020, but you mentioned N+3, which means that organisations can claim up until 2023. At what point should the shared prosperity fund kick in?

Malcolm Leitch: We would say—as, I think, most of the organisations would say—that the new fund really needs to be ready to start, or to be open for business, on 1 January 2021. I realise that the process will probably take some time. You are absolutely right in what you say. If the current arrangements continue, activity that is approved in 2020 can continue to be delivered in 2021, 2022 and possibly into the early months of 2023, but that will be on a declining basis. It will not be possible to approve anything new. It will be winding-up time for existing projects.

Another point that has come up is the fact that the UK shared prosperity fund will not necessarily roll forward what we have done before. It offers the scope to think through what we can do differently and what innovative approaches to employability we can take in the light of the changing labour market that we heard our colleague from the Scottish funding council talk about earlier. The new fund provides an opportunity to have a radical rethink of what the Scottish economy and its constituent regions need for the 2020s, and now is a good time to start that discussion.

Dr Pazos-Vidal: From the early work that we have done, we know that, if we take the previous period as a comparison, we are already getting close to the wire if we want to ensure that there is no gap. Regardless of the UK timescales, in Scotland we should start as soon as possible.

Alison Cairns: I reiterate that there is an emerging potential crisis, because there will be a gap. Even with the current programmes, there are gaps from one programme to the next. Even though we have a fairly set process with a framework to work within and guaranteed funds, it still takes two years for us to get off the starting blocks. There needs to be some mitigation and some urgency in dealing with the issue. While we are waiting for successor funds, I hope that some sort of mitigation, hiatus funding or programme of support will be put in place that bookends the two things, and that the successor fund is not just a rolling forward of the status quo.

Gordon MacDonald: When the new fund was announced, it was stated that the UK Government would consult the devolved Administrations about how to spend it, although it was not necessarily suggested that it would be administered from Scotland. In its submission, COSLA said:

> "We do not welcome the possibility that Brexit might mean an increase of powers of the UK Government in local economic development in Scotland."

Could you highlight what your concerns are?

Dr Pazos-Vidal: Yes. There are two levels to our concerns, one of which relates to the economic policy. We would not like the current economic framework to be changed unnecessarily because of Brexit. Secondly, we are concerned that there will be a change in the balance of power at the political and constitutional level as a result of Brexit, as has happened, or is happening, in a number of other EU return areas. Therefore, we believe that keeping the status quo is the right thing to do. I mentioned the UK Government's explicit commitment to let Scotland do its own thing; the broad priorities would, of course, have to be agreed with the UK Government, but Scotland would be able to take innovative approaches and would be allowed to fail, if the worst happened.

I will give an illustration of what can happen. In other federal states in Europe—particularly in states with high levels of decentralisation or devolution—the regional allocation of structural funds has often been managed partly by the regional government and partly by the national Government. That is a recipe for madness—it is a recipe for making investments that cancel one another out. It is simply not good. One of the good things about structural funds is the relationship between the two levels that we have had. For political, legal and practical reasons, it makes sense to avoid investments and decisions that are basically contradictory.

Alison Cairns: In principle, we do not have any issue with whatever grant scheme or programme comes next as part of any suite of arrangements being UK administered. For example, if there was a proposal for a UK civil society fund for active citizenship that would be co-designed and co-managed by civil society across the UK in the best possible way, we would not have an issue with that, because that might be the best thing for our communities, for the sector and for civil society. In principle, where the governance and management of different things covering different policy areas takes place is not an issue for us.

Gordon MacDonald: If the fund was UK administered, would that necessarily reflect the needs of different regions and economic sectors in Scotland, or educational differences?

Alison Cairns: It could do. There are some fantastic UK funders that operate in Scotland, such as the Esmée Fairburn Foundation or the Robertson Trust, which really know how to manage and deliver funds and work with their stakeholders. They have proper co-production and joint ownership of the policy areas, and really good governance and implementation. If that was the case, we would not have an issue with it.

There are obviously aspects of the current funds to do with regional development—I am talking about funding to build infrastructure or bridges, for example—on which a different approach might be necessary. It is not clear whether such aspects will form part of a successor fund. However, for us, the issue is about maintaining the focus on the current priorities, which relate to social policy areas.

The Convener: We are slightly pressed for time and three more members would like to put some questions so, perhaps after Malcolm Leitch has responded to that question, we will move on.

Malcolm Leitch: It would be a poor situation if a set of EU-imposed rules was just replaced by an almost equivalent set of UK Treasury rules for the UK shared prosperity fund. I would not particularly favour that.

To quickly stress what Serafin Pazos-Vidal said earlier, with previous structural fund programmes going back many years, the Scottish Office initially and more recently the Scottish Government have had considerable discretion in the deployment of the funds in our patch. We have a suite of operational programmes, which form part of what is called, in the current jargon, a UK partnership agreement, in which there is a Scottish chapter that was in effect written by the Scottish Government. The tradition has been one of very loose scrutiny of the structural funds by UK Government departments. However, part of the dynamic is that, if the money is coming from the Treasury outwith Barnett, perhaps there will be some reporting requirements—he who pays the piper calls the tune. There would be issues that would need to be squared in negotiations directly between the UK departments and the devolved Administrations, but certainly there has been no demand to have the UK shared prosperity fund micromanaged from Whitehall.

John Mason: If the witnesses were here during the previous evidence session, you will realise that my questions are similar to the ones that I asked earlier.

Focusing on the money, should the total that the UK spends on structural funds—or whatever the successor funds are called—be the same as comes from Europe now? Is it a reasonable amount? Perhaps more important, how should that be spread out? We have heard suggestions that it could be based on population, that Barnett could be used or that it could be based on GDP or unemployment. It could be one of a range of things or it could be a mixture. How should that be done?

Malcolm Leitch: I will deal with the easy question first. As a number of the written submissions make clear, regional economic disparities in the UK have not narrowed in recent years, so it would seem somewhat counterintuitive if the money that is available for regional development was cut from the current levels that the European structural funds provide. For example, the Industrial Communities Alliance Scotland said in its submission that the baseline should be what currently comes to the UK through EU structural funds, and I emphasise that that would be the baseline and not the maximum.

On how the money is allocated, Scottish cities says that one of the defects of the EU system is that the allocations are based on a rigid application of one variable—GDP per head—and one spatial unit, which is the so-called NUTS level 2. Surely, if we are moving to a UK system, we can get a more sophisticated approach that will identify coherent labour market and economic areas where we can target the money more effectively and avoid some of the anomalies that arise from the application of that EU formula. There are opportunities to look at other things, such as how we might use the Scottish index of multiple deprivation, if we get a devolved sum of money to spend according to Scottish priorities. We are much better equipped to identify how we can bring need and opportunity together at regional level within Scotland.

Obviously, there is the broad issue about the allocation of the fund. One reason why a lot of respondents feel that the Barnett approach is not great is because of the situation in Wales, which currently gets in excess of 20 per cent of the UK take of structural funds. That is a reflection of the very depressed conditions, particularly in the former mining and steel areas in south Wales. You have to be careful about what you wish for in looking at that because, relative to many parts of northern England, most parts of the Scottish economy have not done too badly in recent times. You would need to look at that carefully before suggesting any sort of allocation formula that might be used.

Dr Pazos-Vidal: To echo what I said earlier, Scotland has a good track record in identifying problems using tools such as the Scottish index of multiple deprivation or, in rural areas, the socioeconomic performance index, which was home grown and developed in Scotland to allocate the EU rural development fund across Scotland. Once we do away with the rules from the European Union—I say once again that they are very transactional and some of them do not make any sense here, such as the NUTS areas, which have been mentioned and which in reality do not make much sense in the Scottish geography—there will be an opportunity to use the more sophisticated policy mechanisms that currently exist in Scotland for some policy areas, including for some of the structural funds.

With regards to the allocation across the UK from any replacement funding, clearly we all agree—I think that there is a consensus among everyone who has given evidence today—that the current allocation should be the baseline. There is an issue to do with the Barnett formula and making sure that the funding does not affect the fiscal framework but is added on top of it, as currently happens with the structural funds.

12:00

Alison Cairns: That issue is where the real risks are in this whole area and it is why we need to get on the front foot in relation to what we want and the policy areas that we want to protect or enhance in a successor fund. We have lots of evidence from across Scotland and from various sectors to justify certain areas for investment. Obviously, a big focus for us is on continuing all the social policy elements in the current structural funds.

John Mason: Can I press you on the actual money? What is the SCVO's view on that?

Alison Cairns: There should be absolutely no regression on the money. That is where the risk is, because at the moment we are not spending what we were originally awarded and we are handing money back. For instance, if we go down a Barnett route and if the Treasury looks at what claims are going in now and what we are spending, it could easily say that we are not spending it.

John Mason: How should we allocate the money? Should that be based on GDP or a mixture of things?

Alison Cairns: We should argue for the amount of money that we are currently allocated, and possibly more. There will be battles within that, because London, for example, does not do very well from the structural funds because of the current GDP calculation that is used to allocate funding. London will rightly want to have a share of the money in any like-for-like replacement that comes in. It has every right to argue for more, because it has done badly out of the current system.

John Mason: Are you saying that you would accept that Scotland should get a smaller percentage than we get now?

Alison Cairns: No. We should argue for the current allocation. The issue that we want to keep the focus on is what the policy areas will be. Those should be around social inclusion, combating poverty, addressing inequality and employability. Somebody mentioned earlier the current challenges in that, now that we have higher employment, there are people who are much further from the labour market who need help. The current programme is not really addressing that, but that is because of the match with that provision.

John Mason: I still want to focus on the money. If London was to get a bigger percentage, I presume that that would automatically mean that Scotland got a smaller percentage, or do you have a formula that would ensure that Scotland got the same amount as we get now?

Alison Cairns: The argument is that, as a starting point, we want no regression from what we have been allocated over the years based on a current calculation. However, if the shared prosperity fund targeted some big social policy areas, for example, there would be an opportunity for us to argue for more. It is about getting the policy areas right, justifying those policy areas and potentially arguing for more investment in them. We have lots of evidence to support measures on financial inclusion, combating poverty, employability and a range of other issues. Within a UK pot, we could argue for more investment than we have had in the current programme. For us, it is about first getting on the front foot in relation to what we think the investment priorities should be—we have evidence to support those—and then we need to argue that there should be no regression from the current allocation.

Fulton MacGregor: I am going to ask the same question that I asked the previous panel, although I appreciate that it is something that you have addressed in your previous answers. How can we ensure accountability and transparency in future programmes while also reducing bureaucracy?

Malcolm Leitch: It involves trying to get the approach right at the start in terms of engagement with stakeholders. During the almost two years before the UK shared prosperity fund kicks in, there is a great opportunity to start engaging with stakeholders right at the start. In the past, we have had EU programmes that have been created by plan teams made up of people from all sorts of sectors getting together and thinking through the issues, looking at the evidence for what was needed and then coming up with programmes as appropriate. We did not always get our way in that, because sometimes EU rules came in and ring fenced allocations for certain things that came from EU regulations that had to be accommodated. One of the things that we could do better to get that transparency and buy-in is to start working from first principles, making sure that all the relevant stakeholders are meaningfully engaged right from the start and remain meaningfully engaged right through the process. That was perhaps one of the learning points from the process of putting together the structural fund programmes for 2014 to 2020.

Dr Pazos-Vidal: I echo that. Having had the experience of the very long process of drafting the current programmes in Scotland, I can say that there were lots of opportunities for strategic engagement, but sometimes the goalposts were moved as we were having the discussion. That is quite difficult, particularly when you are trying to represent views from a variety of colleagues.

We should be clear from the start about what it is that we are trying to achieve—for example, what the UK wants to do with its shared prosperity fund beyond the first principles that have been mentioned—and that means that we have to have a proper discussion in Scotland about what we want to achieve. That must involve everybody knowing everybody's agenda and being clear from the outset about what we are prepared to bring to the table and what we can deliver based on the existing capacities and experience, rather than just giving opinions. We need to be clear from the outset how the process of development of the priorities will happen, who will be involved at each stage of the process and who will be part of some of the processes and not others. If we do not have a clear understanding of the system for the development of the priorities from the outset, we risk moving the goalposts. Similarly, if we do not have that clear understanding and there is a change of minister or a problem between London and Edinburgh, that will create problems in terms of developing the programme. Those things need to be clear from the outset so that we can adapt and influence things accordingly.

Alison Cairns: There are issues of transparency in this process. For instance, there have been occasions where money has been shifted out of priorities without any communication with stakeholders about how that money was shifted right at the start.

There are lots of great examples that we can learn from of funders that operate good programmes in Scotland that are transparent and involve stakeholders. What matters is the model that you put in place to manage and implement the funds, and the governance.

We are looking at a clean sheet. Who governs and manages any successor grant fund is entirely up for grabs, and there are lots of good examples of how funds are managed across the UK and across Scotland in an open and transparent way.

Bits of the Scottish Government are doing that well, as well as bits of local government, and trusts. There are lots of parts of Scotland that are managing funds in an accountable way, according to the principles of good governance.

Fulton MacGregor: How do you think that all those good-practice examples could be brought together in one place?

Alison Cairns: The Scottish Government is part of the Open Government Partnership, which is a global initiative around open governance that has good processes and models for open government. We are part of a pioneer project on that. Further, you could talk to the Scottish funders forum and a range of people and organisations about how to ensure that there is transparency around grant schemes.

Jamie Halcro Johnston: A lot of what I wanted to cover has already been dealt with in your previous answers. I recognise that we need more details on the replacement proposals, that—in line with what Martin Fairbairn said earlier—we need a simpler system, that the current system is very time sensitive and that, as Alison Cairns said, many groups in the Highlands and Islands are struggling to access the programme.

If we do not get regression in terms of the funding, and if we are able to improve on the issues that we have just mentioned and on the inflexibility in the system generally, do you think that the new prosperity fund could be a positive thing, particularly in some regional areas, such as the Highlands and Islands?

Alison Cairns: Absolutely. There are lots of ifs to that and obviously lots of politics around it, but yes, of course it could.

We are looking at the equivalent amount of money—£800 million or whatever, potentially—and a clean sheet in terms of designing the policy investment areas and who manages what bit and where it goes. There are opportunities there, which is why I have said several times that we need to get on the front foot in terms of what that should look like.

Malcolm Leitch: I agree that there are real opportunities through the UK shared prosperity fund to avoid not only some of the technical rigidities that we have heard a lot about today but also some of the policy rigidities that have characterised some of the European structural funds.

As you know, in our part of Scotland, the lowlands and the uplands area, 80 per cent of the ERDF has to be spent on either research and innovation, SME competitiveness or the low-carbon economy. That might be fine as far as it goes but it gives very little room for manoeuvre in terms of how funds are allocated. With the UK shared prosperity fund, there might be some hard choices to be made on the balance between place-based activities, people-based activities and business-facing activities but, given what will hopefully be a considerable amount of devolution to Scotland, at least those issues will be discussed and concluded within the Scottish family. That will certainly be an advance on having to follow the EU rule book.

Dr Pazos-Vidal: Indeed. We have opportunities to totally rethink how we manage long-term economic development and socioeconomic development across the UK, and in Scotland in particular. The question is whether we will have fresh thinking in that regard. Administrations and bureaucracies like certainty rather than innovation. However, this moment is perhaps the first time in 40 years that we can rethink some of these frameworks. That was not possible before. It is very much a matter of having that open thinking.

What really bothers me is that the reason why structural funds exist and are valuable is that they are not subject to the electoral spending cycles because they are subject to supra-national law and, whatever the UK feels about the structural funds, it could not change that arrangement. We saw that when the Government changed from Labour to Conservative, and still had to deliver what had been agreed.

How can we retain that in the UK and in Scotland? How can we legally bind future Parliaments and Governments in a way that is constitutionally appropriate and effectively gives that security? That is one of the key elements. We have to ensure that the shared prosperity fund, or any fund, will work in a way that is structural, as the structural funds are at the moment.

The Convener: We have gone a bit beyond the time that you were told was scheduled, but I hope that has not caused any of you any inconvenience. It is a reflection of the interest that we have had in our discussion with you. Thank you for your attendance.

12:13

Meeting continued in private until 12:49.

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