

Infrastructure Services Committee - 20 June 2013

2014-20 EUROPEAN FUNDS CONSULTATION RESPONSE

1 Recommendations

- 1.1 It is recommended that the Committee consider and endorse the proposed covering letter and response to the Scottish Government consultation on 2014-20 programmes set out at Appendices 1 and 2 to this report.

2. Background

- 2.1 Aberdeenshire has benefitted from European funding investments for a number of years, with over £23 million of grants having been secured by public and private sector organisations from 2007 to the present date. Approximately £1.75 million of this has been drawn down by Aberdeenshire Council, with bids for a further £200k having recently been submitted.
- 2.2 European Structural and Investment Funds provide funding for a wide range of projects across the EU. These programmes, namely the European Agricultural Fund for Rural Development (EAFRD); European Maritime and Fisheries Fund (EMFF); European Regional Development Fund (ERDF) and European Social Fund (ESF); are jointly managed by the European Commission and Scottish Government, on behalf of the UK Government.
- 2.3 7-year programmes for the funds are agreed between these institutions, with new programmes covering the 2014-20 period under development at present. A Partnership Agreement is being drafted at present, with a consultation open until 30 June 2013. The consultation document can be accessed via Elected Members' ward pages or the Scottish Government's website at <http://www.scotland.gov.uk/Publications/2013/05/6187>.

3. Discussion

- 3.1 A number of changes to the way of delivering European funds in Scotland have been put forward by the Scottish Government. These relate to the activities to be funded and the way in which the funds will be managed.
- 3.2 In terms of **funding priorities**, the European Commission and limited budget of the programmes dictate that a limited number of priorities must be focussed on. Three objectives have been identified:
- 3.2.1 Business competitiveness, innovation and jobs
- 3.2.2 Low carbon, resource efficiency and the environment
- 3.2.3 Local development and social inclusion

- 3.3 The funding priorities proposed are relatively comprehensive, complementing Aberdeenshire Council's Plan for 2013-17. It is envisaged that they could support enhancements to business support activity; employability and community regeneration activities. There will also be scope for the continuation of bottom-up, community led local development initiatives managed by Local Action Groups such as LEADER and the Aberdeenshire European Fisheries Fund.
- 3.4 In theory, there is the potential to include accessibility to services and sustainable transport. However, the eligible activities in these fields would be limited in 'more developed' regions such as Aberdeenshire and are unlikely to be included in the Scottish programmes. This being the case, it is important to argue for them to be included in other European funding programmes not managed by the Scottish Government such as INTERREG. Aberdeenshire has successfully drawn down funds for a number of transportation and sustainable communities-related projects from the INTERREG North Sea Region Programme.
- 3.5 In terms of the **delivery structure**, the Scottish Government proposes to virtually eliminate the 'challenge fund' approach, which provided an open and competitive opportunity for project applicants to submit proposals. This would be replaced by a more centralised model with three distinct groups:
- 3.5.1 A Partnership Agreement Monitoring Committee (PAMC), responsible for managing performance, ensuring complementarity between the different funds and implementing horizontal themes (e.g. equal opportunities, sustainable development and social inclusion);
- 3.5.2 Three Strategic Delivery Partnerships (SDPs), one for each funding objective, tasked with shaping Operational Programmes for the individual European funds, providing match funding and ensuring that funded projects deliver.
- 3.5.3 Multiple Delivery Agents (DAs), who would deliver activities on-the-ground.
- 3.6 The key groups are likely to be the SDPs, who will in effect decide which projects or 'operations' would be funded and then deliver these themselves or commission DAs to undertake them. The SDPs would be made up of representatives from key agencies and stakeholders.
- 3.7 It may be difficult for Local Government to engage with the SDPs, given that it would not be possible for 32 Local Authorities to become members of the Groups. COSLA and partnerships such as the East of Scotland European Consortium (ESEC) would be the most appropriate representatives of Local Government, but cannot commit to funding or activity in the same way as national agencies such as Scottish Enterprise could.
- 3.8 There are advantages to the SDP model, namely that this could encourage cross-agency working and provide 100% funding for projects, rather than a proportion funded by the EU. Conflicts of interest would need to be carefully managed, given that the same agencies would sit on the SDP and the PAMC, which would approve the decisions of the SDP.

- 3.9 The consultation also discusses **reducing the administrative burden** of the programmes. Presently, project sponsors must provide evidence of all expenditure incurred being defrayed through their accounts. This means providing copies of invoices through to bank statements, with several stages of documentation in between. It is proposed that this system be changed with projects being monitored more on what they achieve, than what they spend. This would result in lump sum or flat rate costs being paid, rather than reimbursement of actual, evidenced expenditure.
- 3.10 The Head of Finance and the Monitoring Officer within Corporate Services have been consulted and are in agreement with the terms of the report.

4. Equalities, Staffing and Financial Implications

- 4.1 An equality impact assessment is not required because this would be the responsibility of the Scottish Government as Managing Authority for the Structural Funds Programmes.
- 4.2 There are no direct staffing or financial implications arising from this report. European funding programmes could potentially provide investments of several million pounds in Aberdeenshire from 2014-20.

Stephen Archer,
Director of Infrastructure Services

Report prepared by Martin Brebner, European Services Executive
20 May 2013

APPENDIX 1 – COVERING LETTER

Dear Sir/Madam,

Thank you for the opportunity to comment on the Scottish Government's proposals for European Structural and Investment funds for the 2014-20 period. Aberdeenshire has benefitted from investments from European Structural Funds for a number of years and I hope that this will continue in the future.

Aberdeenshire Council's priorities align closely with those of the Scottish Government and European Union, hence we support the thematic priorities selected for the 2014-20 programmes. Scope for accessibility and sustainable transport activities would also be welcomed, but the need to focus on a limited number of priorities is recognised. If these additional activities cannot be supported, we would like to see them included in future INTERREG programmes.

In terms of the governance and delivery models, Aberdeenshire Council cautiously welcomes the proposed structure. It has clear advantages in terms of facilitating partnership working and consensus building amongst stakeholders, potentially reducing duplication and administration. However, there is a need to ensure that bottom-up, community-led delivery using the LEADER model is continued and fits within the relatively centralised structure proposed. In addition, we are concerned that diverse stakeholder groups such as Local Authorities could be marginalised in the decision-making process, given the need to limit the size of the proposed Strategic Delivery Partnerships (SDPs) for practical reasons.

It is important that SDPs are not direct replacements for the Strategic Delivery Bodies of the present programmes, which have tended to operate in isolation and on a single-agency basis. There has been significant duplication of activity between national agencies and local partnerships (e.g. strategic skills pipelines), which should be addressed in the new programmes. Partnership working has long been recognised as one of the greatest achievements of European Structural Funds programmes in Scotland and it is essential that this is not undermined by the desire to reduce administration and bureaucracy.

That is not to say that reducing the administrative burden is not required – indeed it should be a priority to address the overly-complex audit and compliance regime which is expensive and time consuming. Introducing a reimbursement system based on flat rates/unit costs rather than actual costs which must be onerously evidenced from invoice to bank statement, would free up significant time and resources which could be allocated to delivering activity, rather than producing paperwork.

Aberdeenshire Council is ready and willing to work in partnership with the Government and other stakeholders to ensure that the Structural and Investment Funds deliver a positive impact for our communities. I hope that this input is constructive and look forward to seeing the final Partnership Agreement.

APPENDIX 2 – DRAFT CONSULTATION RESPONSE

Question 1 – Are there other areas you think the Partnership Agreement should address?

In terms of thematic areas, the focus on skills, business development, local employment, research commercialisation, infrastructure and access to finance appear relatively comprehensive and should help to meet the development needs of Scotland. As alluded to in other sections of the consultation document, sustainability should also be a priority, with the suggested focus on low carbon, resource efficiency and the environment welcome.

In terms of non-thematic aspects, consideration of partnership working within Scotland is welcomed in the Partnership Agreement. While the Partnership Agreement is an agreement between the European Commission and UK Government (with a Scottish chapter), it should also consider how stakeholders including local government, further and higher education and the third sector will be included in the decision-making, management and delivery of funds. This would help to demonstrate commitment to the partnership principle and code of good conduct set out in the Structural Funds Regulations.

Question 2 – Do you think these thematic objectives will best address Scotland's short-term and long-term challenges?

The three thematic objectives identified generally reflect the development needs of Scotland and Aberdeenshire.

Business Competitiveness, Innovation and Jobs

In terms of the first identified thematic objective, the emphasis on commercialisation of research is welcomed. There is a need to move away from the funding of research infrastructure and centres in the present programmes towards engagement and commercialisation with private businesses (particularly Small and Medium-sized Enterprises). Duplication with the Horizon 2020 programme should be avoided, given the limited budget available for the Structural and Investment Funds in Scotland.

The focus on key sectors such as renewable energy and food and drink is also supported, given the need to develop a sustainable and diverse indigenous business base in Scotland. Support for other key sectors identified in the Scottish Government's Economic Strategy and Aberdeenshire Council's Economic Development Priorities such as agriculture, forestry, fisheries and sustainable tourism should also be priorities for investment.

Low Carbon, Resource Efficiency and the Environment

Recognition of the role in reducing energy and resource consumption, in addition to developing the renewable energy sector is welcomed. This should not only provide environmental benefits in terms of reducing carbon dioxide emissions and pollution, but also help Scotland's SMEs to become more efficient and profitable, increasing their competitiveness. While much of this focus will be on the fisheries, forestry and agriculture sectors (given the content of the regulations for the EAFRD and EMFF),

projects to improve the efficiency and sustainability of all SMEs should be encouraged through the ERDF programme.

Local Development and Social Inclusion

It is important to recognise that the pockets of deprivation referred to in the consultation document exist outside of cities and large towns. Barriers to employment and accessing services exist in small-medium sized towns and remote rural areas, but do not always stand out in Scottish Index of Multiple Deprivation statistics due to their relative lack of concentration over a wider geographical area. As such, the focus on overcoming barriers to social inclusion is welcomed by Aberdeenshire Council, as is the recognition of demographic challenges and access to broadband services.

In terms of skills development, it is important to recognise the value of the strategic skills pipeline approach to linking the employability/social inclusion agenda and labour market needs such as mid-high level skills. The overall objective of the skills pipeline approach should be to bring those furthest from the labour market into sustainable (and ideally skilled) employment, not to simply move them into minimum wage positions. The proposed 'three-fund' approach appears to artificially separate employability from labour market needs, possibly to justify the continued separation of Skills Development Scotland (SDS) and some third sector activities from the Community Planning Partnership-led skills pipeline approach.

This delineation should not be used as a justification for the continued separation of national agencies' activities from the integrated CPP approach. However, it is recognised that not all individuals in receipt of support/training from the European Social Fund will be disadvantaged and skills pipeline clients. Local government and other stakeholders have regularly worked in partnership on projects and national agencies should be required to do so as well to ensure a truly strategic approach to the delivery of funds and the minimisation of duplication and gaps in provision.

Question 3 – Do you think there are any other thematic objectives which should be addressed?

One important area not reflected in these thematic objectives is accessibility, both in terms of access to services and sustainable transport, which are of particular significance to peripheral areas such as Aberdeenshire. It is understood and accepted that infrastructure investments in 'more developed' EU regions are not eligible for support from the Structural and Investment Funds and that the available revenue funds need to be focussed on a limited number of priorities. Aberdeenshire Council therefore strongly advocates that the Scottish and UK Governments ensure that the accessibility and sustainable communities thematic objectives are maintained in future INTERREG programmes to ensure the continued availability of EU funds for these high priority objectives.

Question 4 – Do you think the Scottish Themed Funds will address Scotland's key challenges?

It is clearly a very difficult task to bring together four different EU funds with different rules and regulations in a coherent way, even with the existence of a common provisions regulation and common strategic framework. The identified themes are a helpful and constructive way of bringing together the main priorities of these different

funds. There is a risk that adding additional administrative structures and branding to the structure may create confusion (e.g the 'Scottish Funds' are in fact combinations of other funds), but the provision of fully-matched funds to Delivery Agents would be attractive to them.

The activities set out in the consultation document should help to address Scotland's key challenges. The addition of supply chain development for key growth sectors would be welcomed in the first fund, as would 'strategic skills pipelines' in the third fund to ensure that all stages of the pipelines and their delivery structures can be supported. In terms of the EAFRD element of the programmes, the inclusion of enhancement of cultural heritage could perhaps be included under the competitiveness fund, given the role which cultural heritage plays in the sustainable tourism industry.

Question 5 - How do you think the governance and delivery arrangements will impact on your sector?

Aberdeenshire Council welcomes the partnership approach to fund management proposed in the Strategic Delivery Partnerships (SDPs), but has concerns over whether or not these will operate as real partnerships. This is because there will need to be a limited number of partners involved for operational effectiveness, which could lead to the voice of more diverse stakeholder groups such as Local Authorities being diluted. While representative bodies of stakeholder groups are very capable of representing the interests of their members in forums such as the Partnership Agreement Monitoring Committee (PAMC), they would not be able to commit them to providing match funding or delivering projects in SDPs. There could also be issues with them acting as Lead Partners (e.g. due to legal status/constitutions), which would put them at a disadvantage vis-à-vis Scottish Government Directorates and agencies such as Scottish Enterprise and Skills Development Scotland who would be in a stronger position when project selections were being negotiated. In order to reflect the diversity of Local Government, Aberdeenshire Council would like to see as a minimum COSLA and the present European Consortia represented on the SDPs.

The 'fronting' of bids by larger agencies with the capacity to manage the administration is a sensible approach, provided that this does more than shift the responsibility for compliance away from Delivery Agents and the Managing Authority to Lead Partners, without them having a degree of control on expenditure. Local Government has taken this role on already in the present programmes, acting as lead partner for Community Planning, multi-partner and multi-agency projects and is likely to continue to do so. However, while this has reduced the number of projects which the Managing Authority has to liaise with, the administrative burden has not been reduced, with project partners still needing to provide significant evidence of financial and project outputs to the lead partner, who in turn liaises with the managing authority.

Local Authorities also play an important role in providing administrative, management and financial support to Local Action Groups (LAGs) tasked with delivering EAFRD and E(M)FF funds to facilitate bottom-up, community-led local development. It is unclear how this 'LEADER' model of delivering funds will fit into a relatively top-down management and delivery structure. One potential solution would be for the SDP for social inclusion and local development to 'commission' LAGs following an open call for proposals, giving them full autonomy to identify

projects and allocate spend within the given programme framework. LAGs would in effect be Delivery Agents, albeit with the ability to manage their budgets and sub-contract actual delivery to community-led projects.

The most appropriate Lead Partner would be the Scottish Government and it would be preferable if LAGs covering both EAFRD and EMFF could be supported, given the aspiration to co-ordinate these funds through multi-fund Local Development Strategies. Consideration should be given for also allowing ESF and ERDF activities to be supported, although the administrative burden of LAGs having to implement different eligibility rules should not be underestimated. LAGs would need to have autonomy to decide which fund would be used for the projects they support without having to check with the Lead Partner in order to maintain their autonomy (with the lead authority representing the LAG carrying out eligibility checks). As per other activities commissioned through the SDPs, funds allocated to LAGs (including EMFF resources) should be fully co-financed, with the individual projects they support providing their own match funding.

This approach could also be replicated for CPP-led strategic skills pipeline projects, with a lead organisation such as a Local Authority acting as the Delivery Agent on behalf of its associated CPP. The CPP itself would then be given control or autonomy of how to spend its allocation of funds, provided that these meet with the fund rules. The lead Delivery Agent would be tasked with ensuring compliance with the fund and programme rules, as at present. For administrative simplicity, it may be appropriate for the CPP to be allocated ESF (and possibly ERDF), with LAGs EAFRD and EMFF.

Overall, the SDP approach has many strengths, with the potential to achieve true strategic alignment and economies of scale by facilitating joint working between stakeholder groups. From the perspective of Local Government, this is something which is already happening through CPP projects and multi-partner projects such as the Rural Tourism Business Support project in the East of Scotland. This approach may be more of a challenge to agencies which have tended to act in isolation in the present programmes. It is important that partnership is a key component of the operations agreed by the SDPs – single agency projects should not become the norm, justified on the grounds of administrative simplicity as these raise questions over the additionality of EU funds and undermine the partnership approach.

In terms of transparency and accountability, there are some risks with the approach proposed which need to be addressed. For example, there could be a project commissioned by the Scottish Government (SDP), delivered by the Scottish Government (DA), approved by the Scottish Government (PAMC) and monitored by the Scottish Government (Managing Authority). There are likely to be the same stakeholders acting at all levels of the decision making process, hence mechanisms need to be put in place to ensure that conflicts of interest are addressed. Also, the selection processes for Delivery Agents need to be open and competitive (or 'in house' delivery by Lead Partners fully justifiable) and comply with either competitive bid or procurement processes. There may be difficulties in explaining why one method (in house, competitive bid or procurement) has been chosen over another which could lead to administrative difficulties.

The delegation of control over co-financing/match funding may also be an issue for Local Government. There may be an expectation that Local Authorities allocate funds to the SDPs without being represented individually in the partnerships making

decisions on the allocation of funding, or without having guarantees that the funds will be allocated to their geographical area. This would be difficult in terms of compliance with Local Authorities' financial regulations and politically, with funds from the Scottish Government and Council tax for local activities being transferred to a central partnership. Local Authorities may also wish to deliver activity in house, which would be an example of the match funding sitting at Delivery Agent level rather than SDP level. This may be mitigated through a form of 'challenge fund' for certain activities managed by SDPs.

Question 6 – How do you think the governance and delivery arrangements will impact on your organisation?

The priorities of Aberdeenshire Council, and the Scottish Government are already very closely aligned in terms of economic development focused on priority economic sectors; demographic challenges; and early intervention. Similarly, both are committed to sustainable development, social inclusion and equal opportunities. As such Aberdeenshire Council is ready and willing to work in partnership with the Government and other stakeholders to ensure that the Structural and Investment Funds deliver a positive impact for our communities.

Opportunities to build upon successful models such as the use of LAGs to deliver community-led local development and the use of CPPs to deliver strategic skills pipelines are apparent in the proposed programmes, supporting Aberdeenshire Council's aspirations for the funds. It is less clear if there will be opportunities for Councils to access funds to enhance business support and community regeneration activities (outside of those facilitated through LAGs), which are also priorities in Aberdeenshire. There is a risk that activities with a local geographical focus will not be funded due to a view that they are not 'strategic' enough. However, if the programmes' outputs are to be achieved, there is a need to fund 'on-the-ground' activity facilitated by Local Authorities in partnership with other stakeholders.

In short, the impact of the governance and delivery arrangements on Aberdeenshire Council will ultimately depend upon the representation of Local Government on the SDPs. It will also depend upon the recognition of, responsiveness to and flexibility of SDPs to local needs. Aberdeenshire Council is willing to work with the Scottish Government and partners to manage and deliver European funds, but has concerns over how meaningful its engagement can be in a centralised structure. If adequate representation of Local Government on the SDPs can be assured, most of these concerns should be allayed.

Question 7 – Are there any unidentified governance or delivery arrangements that could aid simplification of the future programmes and ensure that the Structural Funds complement each other?

The use of delivery models such as Integrated Territorial Investments, Joint Action Plans and Community-Led Local Development have not been included in the Partnership Agreement consultation. It is understood that these will be explored in more detail in the Operational Programmes for the individual European funds in question. The use of these delivery models, which generally allocate funds to a given geographical area or activity for strategic, joined up investments should certainly be explored. These would allow activity to be delivered strategically in functional geographical areas (e.g. travel to work for employability) or at a sector wide level (e.g. food and drink in rural Scotland). The flexibility offered in these

models through the use of lump sums or flat rate costs could help alleviate audit and compliance issues. As many of these options advocate a multi-fund approach, their inclusion in the Partnership Agreement may be helpful.

Question 8 – What other delivery options do you think would be feasible for delivering youth employment initiatives?

While Aberdeenshire would not be eligible for funding under the Youth Employment Initiative criteria, its delivery will have implications for employability activity across Scotland. Youth employment issues do exist Scotland-wide, hence it is important that funding to address these is made available for all other areas of Scotland from mainstream ESF funds. As highlighted in the response to question 2, there is overlap between Funds 1 and 3 in terms of provision for employability and skills development. This creates a tendency for duplication, given organisations who operate nationally (i.e. SDS and SCVO) the opportunity to operate in isolation to CPP-led, multi-agency skills pipeline projects. Given that the YEI will be geographically restricted to the South West of Scotland and targeted on unemployed young people, it would appear more appropriate for it to be delivered under '3' under social inclusion and local development. Furthermore, given that the third sector is represented on CPPs (as is SDS), support for this activity would be more appropriately channelled through the CPPs which should represent all key stakeholders and agencies.

It is recognised that many third sector agencies feel disengaged from the CPP projects due to some CPPs commissioning services rather than using the partnership model used in areas including Aberdeenshire. This emphasises the need to address administrative, audit and compliance issues to allow the partnership model of delivery to work effectively, minimising duplication of provision.

Question 9 – What other measures could be taken to reduce the audit and control pressures?

One of the biggest barriers to identifying Lead Partners in the SDPs will be audit and compliance. It may be difficult to identify organisations to act as Lead Partner and those who do are less likely to be willing to work in partnership with other organisations if they are in effect underwriting activities outwith their control. This may lead to an approach of commissioning or in house delivery of activity by single organisations, with questionable added value and opportunities to reduce duplication through partnership working lost. As such, addressing audit and compliance issues is of fundamental importance.

Of particular interest to Aberdeenshire Council is the opportunity to move away from output to outcome-based monitoring, facilitated through the use of lump sums, flat rate costs and unit costs. The present system of providing a paper trail from invoice to bank statement for all items of expenditure is inefficient and costly, given the staff resource required to provide this information. There is a risk to organisations that output-based costing could result in them not recovering sufficient funds to cover their costs, through no fault of their own. For example, employability projects cannot guarantee jobs for every participant as these are subject to labour market and other conditions. If projects were to be paid per job outcome, some may not therefore be able to recover their costs which is a particular concern for smaller organisations. While not directly an audit and compliance issue, a lack of advance payments and delays in receiving grants has discouraged or prevented smaller organisations from

participating in the programmes and should be revisited. It may be realistic to introduce these payments if funds are co-financed and/or matched at SDP level, albeit with a control risk.

In terms of delineation of funds, the recipients of funds (e.g. Delivery Agents) need to know which funds they have received and therefore which set of four rules to apply. This is particularly important to more complex structures such as CPPs and LAGs, who may be tasked with managing funds from more than one programme. It is disappointing that the European Commission was unable to overcome its own internal structures and produce a single set of rules, yet requires Managing Authorities to do so. It is hoped that the Scottish Government will be more successful in doing so and that cross-Directorate co-operation can be facilitated through the SDPs and joined PAMC.