



The Scottish Parliament
Pàrlamaid na h-Alba

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

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By email

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Dear Deputy First Minister,

The 2014-20 European Structural and Investment Funds

At its meetings on 3 October and 14 November, the European and External Relations Committee considered oral and written evidence on the 2014-20 European Structural and Investment Funds (which included your correspondence of 7 November updating the Committee on the Scottish Government's progress in this area).

As a next step, the Committee agreed that it wished to write to the Scottish Government with recommendations from these evidence sessions. I would be grateful if you could consider the Committee's recommendations (attached as an Annexe), and respond to the Committee. The Committee would like to ask that you consider its findings before the final draft of the Scottish Programming Document is submitted to the UK coordinating department in December if that is possible within the timeframes, and hopes that you find the Committee's work helpful.

I look forward to receiving your reply.

Yours sincerely,

Christina McKelvie
Convener
European and External Relations Committee

Annexe

Introduction

The European and External Relations Committee agreed to continue its work on EU funding in 2013 by focusing on the preparations for the new 2014-2020 programming period for the EU Structural and Investment (ESI) Funds. As part of this scrutiny the Committee took evidence from European Commission officials (EC) on 3 October on the new regulatory framework for the ESI Funds, and held a round table session with key Scottish stakeholders and a Scottish Government official on 14 November on the preparations in Scotland for the funding framework.

The Committee asks the Scottish Government to consider its findings and recommendations from these two evidence sessions as detailed below.

Agreement of regulatory package and Partnership Agreement

The Committee is relieved that agreement has finally been reached between the European Parliament and the Council on the Multiannual Financial Framework for 2014-20 (MFF). The Committee notes that the final agreement provides for a third of the MFF (€366.8 billion) to be allocated to Cohesion Policy funding.

The Committee monitored the negotiations on the MFF and the regulatory package for the ESI Funds closely out of a concern that late agreement would impact upon the initiation of the programmes in Scotland. In the evidence heard by the Committee, it was clear that both the European Commission and the Scottish Government were working to expedite preparations for initiating the programmes despite the uncertainty concerning the regulatory framework and the funding. In particular, the Committee noted that the Scottish Government had commenced work on guidance, detailed rules and IT systems for the Scottish Programmes in order that they would be ready in 'the early half' of 2014. The Scottish Government stated that it was "just about on target for where we wanted to be".

The Committee commends the efforts of both the European Commission and the Scottish Government in seeking to secure that the lack of final agreement on the regulatory package and the MFF has not unduly hindered the progress made in in preparing for the new programming period.

The Committee notes that the Scottish Government intends to publish an update paper that will cover the broad content of the Partnership Agreement and the operational programmes and seek wide stakeholder comment on this. The Committee received positive feedback from key stakeholders on the Scottish Government's approach towards implementing the new programmes, with evidence confirming that it had been consultative, results-orientated and strategic. The stakeholders called for this to continue as the Partnership Agreement was finalised, operational programmes were developed and delivery arrangements put in place.

The Committee considers that the evidence it heard from stakeholders provided testimony to the value of the consultative approach that the Scottish Government has taken to the preparation of the framework for

the new programming period. The Committee considers this to be important given that the successful roll out of the programmes will be dependent on many of those stakeholders.

The Committee asks the Scottish Government to provide it with a copy of the Partnership Agreement and operational programmes as soon as possible. The Committee also asks that the Scottish Government keep it informed about progress in relation to the new programmes as it recognises how important this is for delivery organisations, particularly third sector organisations and smaller organisations that could be disproportionately affected by delays.

Thematic Objectives

The EC regulations outline 11 thematic objectives which are in line with the objectives of the Europe 2020 strategy and which all European Structural Investment Funds (structural, rural development and fisheries) should focus on. The Committee noted the eight objectives that the Scottish Government has decided to focus on.

While there appeared to be general support for the selection of these eight thematic objectives, there was a concern voiced by the Scottish Chambers of Commerce (SCC) about the lack of a key focus. The SCC argued that “the Scottish Government must be clear which of these (thematic objectives) form its main focus, in order to ensure the funds deliver maximum impact for Scotland in line with the Commission’s priorities.” It also suggested emphasising R&D&I and SME competitiveness as primary thematic objectives, on the basis that “R&D&I funding is of particular importance as Scotland lags behind the UK in this respect, despite having a strong university sector.”¹

The Committee asks the Scottish Government to comment on whether there is a value in prioritising particular thematic objectives, notably in relation to R&D&I and SME competitiveness.

Highlands and Islands Transition region

The Highlands & Islands (H&I) qualification as a transition region for the 2014-20 programmes, resulting in an ERDF and ESF package of funding around €172m for 2014-20. The Committee heard that there were distinctive territorial challenges that need to be addressed in delivering the Funds, notably remoteness, low population density and transport infrastructure.

The Committee welcomed the information provided by stakeholders on the new delivery tool - Integrated Territorial Investment (ITI) – that is being developed by regional and national stakeholders with the Scottish Government to maximise the value of transition funding and tackle these distinctive issues.

The Committee notes that the detail of the ITI is still being discussed by the Scottish Government and H&I stakeholders. In evidence to the Committee, the University of the Highland & Islands (UHI) welcomed this collaborative approach, but articulated concerns regarding the flexibility of implementation in the H&I region as it believed that much of the current discussions were still

¹ Written evidence from the Scottish Chambers of Commerce.

focussed on national approaches on matching funds as opposed to including regional approaches.

In particular, UHI highlighted regional learning centres as an example of a resource that could be adversely affected if delivery of the Funds was not delivered with sufficient sensitivity towards regional level.

Evidence to the Committee highlighted that digital connectivity was a specific problem for the H&I region and other remote areas such as Shetland. The SCC suggested that the Scottish Government could tap into the private sector to assist with the infrastructure, and should challenge the current lack of take up from that sector. The Scottish Government told the Committee that Scottish stakeholders wanted some of the Funds to be spent on facilitating broadband, and that the Scottish Government would continue to make that point via the Partnership Agreement discussions, but that the EC did not agree with this approach.

On a general level, the Committee would welcome an assessment from the Scottish Government on the tangible benefits that transitional region status will bring to the Highlands and Islands as it is the only region in Scotland to benefit from this status. The Committee would welcome more detail on what the funds will be allocated to in this area in the Scottish Government's regular updates.

The Committee welcomes the development of an Integrated Territorial Investment tool for the Highlands and Islands Region, requests more information from the Government on how this will work and an update on progress to developing such an initiative.

The Committee notes the concerns of H&I stakeholders regarding the issues of balancing national and regional concerns. The Committee therefore welcomed the acknowledgement in evidence by the Scottish Government that it needed to tailor the approach locally for the H&I region, and consider whether additional support was required, particularly to make the most of the area's natural resources and assets and encourage area-specific industry such as renewables. Nevertheless, the Committee would welcome more detail on how the Scottish Government intends to work practically with H&I stakeholders to resolve this issue, and ensure that existing assets such as regional learning centres are not jeopardised.

The Committee welcomes the Scottish Government's commitment to linking business and the educational sectors in the H&I region, and also on digital connectivity and specifically broadband. It requests that the Scottish Government keep it updated on whether the ESI Funds could be spent on infrastructure projects, not only in the H&I region, but also in the rest of Scotland.

Governance and delivery

A single Partnership Agreement Monitoring Committee (PAMC)

The Committee noted that stakeholders welcomed the proposal to have one PAMC to oversee Funds activity and strategy across Scotland, but highlighted that at present there was little detail on important elements such as the committee structure, membership, and decision making/endorsing processes,

or how the PAMC and Highland and Islands ITI would interact. This limited their capacity to feedback to the Committee at this time as to whether the PAMC would be effective.

In particular, the Committee noted that local government representatives called for sufficient representation of local government officials on the PAMC, and also periodic dialogue on the PAMC discussions between national and regional government representatives. UHI called for a more pro-active approach for the PAMC in the new programmes, saying it should have a stated responsibility to ensure all the diverse sectors and views could be included, as well as a role to probe effectiveness of activity funded by ESI.

The Committee asks the Scottish Government to provide more detail on how the Partnership Agreement Monitoring Committee will operate as soon as is feasible.

The Committee asks the Scottish Government to provide its view on the proposal from local government officials that they should have a role in the PAMC, and UHI's call for the PAMC to take a more pro-active approach in the new programming period.

Simplification, audit and delivery models

During the Committee's previous 2012 inquiry on the European Structural Funds, stakeholders told the Committee about the extensive bureaucratic obstacles in the audit processes in the 2007-13 programmes, and the duplication of effort in certain areas.

In relation to the new programming period, the Committee heard evidence from EC officials that simplification of the implementation of the funds and, in particular, how to reduce audit problems, would be a key focus. In supplementary evidence to the Committee, UHI said,

"New arrangements under development for the 2014-20 programmes (unit cost models, flat rate financing, lump sums, greater use of procurement, new financial instruments, etc) will simplify the process in many ways, but it is a fallacy to claim that they will significantly reduce bureaucracy and audit/compliance requirements will remain. What the new arrangements can do, however, is ensure that the process is more streamlined, easier to follow, consistent and, most importantly, is focused on eventual impact of the funds."

The Committee heard that work was underway to explain the new approaches, such as a workshop organised jointly by the EC and the Scottish Government on simplifying costs for the future period. Scottish stakeholders told the Committee that they supported the simplification agenda, but that audit and reporting rules should be clear from the start, and Audit Scotland should work with the Scottish Government and local government to ensure all parties understood potential obligations. For example, H&I stakeholders described some of the challenges facing smaller organisations in accessing the Funds, particularly those with challenging client groups.

The Committee welcomes the work on the simplification agenda, and asks the Scottish Government to continue to outline plans for ensuring that all stakeholders have sufficient information on auditing and compliance rules from the start of the programmes to avoid any

difficulties. In particular, the Committee would welcome more detail on the outcomes of the workshop organised by the EC and Scottish Government and how any concerns raised by stakeholders will be addressed.

Youth Employment

The Scottish Government has identified youth employment as a key objective for the Funds. A new EU Youth Employment Initiative has been established which aims to address high rates of youth unemployment across the EU, but it is likely that only the South West of Scotland region will be eligible for funding through the initiative, with additional funding made available of up to €52 million. The Committee welcomed the fact that the Scottish Government has taken the opportunity to initiate work in this area, using remaining funds from ESF and ERDF as well as new measures.

The Committee asks the Scottish Government to keep it updated on how it is using any funds allocated to the South West of Scotland region to tackle youth unemployment. The Committee requests further detail on any eligibility criteria for funding, and information on whether there will be any geographic focus on certain areas of the South West of Scotland in terms of funding opportunities.

Employability for the over 25 age range

The Third Sector Employability Forum (TSEF) Scotland and North Ayrshire Council emphasised that although the focus on youth employability was very welcome and results were beginning to show; there is a concern that there is an oversupply of youth intervention measures, and that there are four times more people in Scotland over the age of 25 who are unemployed and excluded from the labour market than there are young people.

The Committee notes the scale of the employability issue for the over 25 age group, and asks the Scottish Government how it will use European Social Funding and other interventions to address the problems faced by this age group as they are not eligible for the Youth Employment Initiative. The Committee would welcome updates on this area via the regular six monthly updates from the Scottish Government.

Business sector involvement

The Committee heard from the business sector that the European Commission had identified businesses – and SMEs in particular – as key players in delivering the Funds to ensure competitiveness and increase labour market participation. However, there were concerns that this sector was not sufficiently engaged with the development and implementation of the Funds. The SCC expressed a concern that public organisations were not fully assessing how programmes could be taken forward in a different way, given the different needs of this seven year period and the possibilities of working with the business sector.

Solutions suggested by stakeholders in evidence were:

- North Ayrshire Council highlighted the “plethora of agencies that provide business support”. The Council argued that “business wants a single point of contact that can utilise expertise across a number of

agencies. No single agency will have the depth and breadth of support that is required by business, but a single point of contact for business would be a major step forward.”

- The SCC welcomed the European Commission specifically stating that business and small and medium-sized enterprises should be engaged in the delivery of the funding, saying “we should have a place at the table to determine whether that is really what business needs. I would like to see that acknowledged and I would like to see business built into the mechanism.” SCC also suggested that innovation and flexibility could be found “through grass-roots organisations saying, “This is what the need is, rather than us coming up with the structure and detail”, and that flexibility could include tapping into “some of the private corporates that have the facilities and resources”.
- North Ayrshire Council described how business support tended to focus on larger businesses, and so smaller, more local businesses were less well provided for. A greater local dimension was required in the competitiveness agenda to resolve this and unlock growth potential.
- SCC stated that the Partnership Agreement needs to recognise a role for the business sector, and include “specific commitments to prioritising SMEs for funding, in recognition of the lead they have in terms of potential impact on Scotland’s economic growth and promoting R&D&I investment and business competitiveness”.

In evidence, the Scottish Government acknowledged that a “huge culture shift” was required from both sectors (public and business), and that it was hoped that the SCC would lead by example and that more businesses would engage in the seven years of the programmes.

The Committee welcomes the Scottish Government’s recognition that a cultural shift is required in working with the business sector on the Funds, and asks the Scottish Government to consider the suggestions proposed to the Committee, specifically those relating to business sector and SME involvement

Competitive funding

The Committee is aware of the importance of competitive funds, and would welcome information on whether the Scottish Government has used these funds to supplement the Structural and Investment Funds, and also what has and what could be funded in this way, for example, cultural projects.