European and External Relations Committee

5th Report, 2012 (Session 4)

EU Structural Funds

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The Scottish Parliament
Pàrlamaid na h-Alba

European and External Relations Committee

5th Report, 2012 (Session 4)

EU Structural Funds

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The Scottish Parliament
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European and External Relations Committee

Remit and membership

Remit:

The remit of the European and External Relations Committee is to consider and report on-

(a) proposals for European Communities legislation;
(b) the implementation of European Communities legislation;
(c) any European Communities or European Union issue;
(d) the development and implementation of the Scottish Administration's links with countries and territories outside Scotland, the European Communities (and their institutions) and other international organisations; and
(e) co-ordination of the international activities of the Scottish Administration.

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The Committee reports to the Parliament as follows—

Contents

ANNEXES

Annex A - Extracts of minutes of the European and External Relations Committee (EERC)
Annex B - Oral evidence and associated written evidence
Annex C - Priority areas for spend
Annex D - Community Planning Partnerships
Annex E - Co-financing
Annex F - Summary of roundtable discussion at EERC meeting of 13 December 2011
Annex G - Summary of discussions on Cohesion Funding from EERC visit to Brussels
Annex H - SPICe briefing on EU funding streams

INTRODUCTION

1. Over the last 30 years Scotland has benefited from European Territorial and Cohesion funding in the form of European Structural Funds. These funds have helped deliver infrastructure projects across Scotland along with providing developmet support and employment in both urban and rural areas. During the current funding period, which ends in 2013, Scotland will receive €820 million. Negotiations as to the structure and scale of the next round of structural funding are currently on-going in Brussels.

2. The Committee's inquiry took place against the background of great uncertainty within the Eurozone and alongside the debate on the Multi-annual Financial Framework (MAFF) both of which are likely to have a significant impact on shape of the future structural fund programmes. These events are also likely to increase the economic and social importance of the funds to Scotland.

3. This report sets out the European and External Relations Committee's findings in relation to its inquiry into the implications for Scotland of the next round of EU Structural Funds. Of concern to the Committee was determining the 'lessons to be learned' from the previous funding round, notably:

- the obstacles to securing funds, and how good practice can be shared between would-be recipients to increase success;
- the nature of the 'red tape' that surrounds the application process, the delivery of funds and the auditing of programmes, and how it can be reduced;
- the role of the Scottish Government in supporting programmes, and guiding/supporting would-be applicants.

BACKGROUND

EU structural funds

Overview of structural funds

4. EU Structural Funds are a series of financial tools set up with the explicit purpose of reducing regional disparities across the EU in terms of income, wealth and opportunity. The Structural Funds are made up of the European Regional Development Fund (ERDF), the European Social Fund (ESF), and a fund for Territorial Cooperation. These funds sit alongside the Cohesion Fund (CF)[1]. The current programming period, which began in 2007, ends on 31 December 2013.

5. The European Commission adopted a draft legislative package for future structural funds on 6 October 2011[2], with a proposed overall budget of €376m (an increase of €28m on the current programme). The proposals envisage

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[1] Other funds that have the potential to contribute to the regional development, and will be subject to the broader co-ordination include the Common Agricultural Policy's European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime & Fisheries Fund (EMFF) of the Common Fisheries Policy.

[2] http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1

Partnership Contracts between Member States and the Commission, by which Member States commit to focusing upon fewer investment priorities in line with the Europe 2020 objectives[3]. The package also harmonises the rules of the various funds to simplify the application and auditing procedures. The Committee welcomes the Commission's proposals, and specifically the focus on greater alignment and simplification[4].

6. The Commission is proposing three categories of region for the distribution of funds:

- <u>More developed regions</u> (previously competitiveness regions), where GDP is above 90% of the EU average. These regions will continue to receive the same receipts per capita as in the current programme. An allocation of €53.1bn is proposed.

- <u>Transition regions</u> (a new category), with a GDP between 75% and 90% of the EU average. Regions graduating from 'less developed regions' would receive two-thirds of current allocation. Regions that are between 75% and 90% of EU GDP per capita that are not graduating would receive enhanced support compared to 'more developed regions'. An allocation of €38.9bn is proposed.

- <u>Less developed regions</u> (previously convergence regions), with a GDP below 75% of the EU average. These regions will continue to receive the same receipts per capita as in the current programme. An allocation of €162.6bn is proposed.

7. The Committee heard from the European Commission that the Highlands and Islands could qualify as a transition region, which would allow for greater flexibility in funding together with a higher co-financing rate, and may allow for a focus on infrastructure projects. The Scottish Government and witnesses expressed their support for this status and recognised its importance in allowing that region to concentrate on its specific priorities.[5] The Committee also supports the Highlands and Island's likely qualification as a transition region recognising the benefits this will bring to the region.

8. **The Committee calls on the Scottish Government to work with the UK Government and the European Commission to ensure that the Highland and Islands receives transition region status.**

9. The Commission has set out a series of priority areas for spending the funds which relate to the aims of the Europe 2020 Strategy (see Annex C). The Committee endorses this approach.

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[3] The Europe 2020 Strategy: http://ec.europa.eu/europe2020/index_en.htm

[4] The European Commission published its proposals for a Common Strategic Framework (CSF) in March 2012 with the intention of creating a single set of strategic guidelines and a common source of guidance for each of the five future Funds, (the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund).

[5] Scottish Government correspondence to EERC, 31 Jan 2012

Structural Funds in Scotland

10. The current 2007 - 2013 structural funds programmes in Scotland were shaped, in part, by the reduction in the amount of funding allocated to Scotland as a result of enlargement of the EU.

11. Scotland presently has two structural fund programmes: (i) Highlands and Islands (a Convergence Programme*)*; and (ii) Lowlands and Uplands Scotland (a regional Competitiveness Programme). Each programme receives monies from European Regional Development Fund (ERDF) and the European Social Fund (ESF).

12. The Highlands and Islands Partnership Programme received €174m in funding (ERDF, €122m; ESF, €52m). The Lowlands and Uplands Scotland Programme received €624m (ERDF, €360m; ESF, €264m). Further details of the allocations are contained in the SPICe briefing included as Annex C.

13. An important new feature of the funds was the decision to deliver some of the programme through Community Planning Partnerships, which bring together area plans delivered by groupings. (See Annex D for further details on Community Planning Partnerships in Scotland)

14. Until early 2012, the delivery of the both the Highland and Islands Programme and the Lowlands and Uplands Scotland Programmes was managed by Highlands and Islands Programme partnership (HIPP) Ltd and ESEP Ltd respectively. Since that time both programmes have been managed directly by the Scottish Government with staff drawn from both the ESEP and HIPP.

THE COMMITTEE'S INQUIRY ON EU STRUCTURAL FUNDS

Background to inquiry

15. The Committee identified EU Structural Funds as a priority and agreed to conduct an inquiry into the perceived strengths and weaknesses of the current structural fund programmes (2007 – 2013), with a view to understanding how to improve outcomes for Scotland in the 2014 – 2020 funding round.

16. The inquiry was conducted in two stages. Stage one was a comprehensive period of fact-finding, which involved a roundtable discussion with stakeholders, dialogue with the Scottish Government and other interested parties (see Annex F), as well as discussion with the European Commission (See Annex G). From this early stage emerged the terms of reference for the Committee's inquiry into structural funds as outlined in paragraph 2. These three broad issues are explored in detail under the two specific headings below:

- Scotland's structural fund delivery mechanisms;
- Shortcomings of the current and proposed EU regulations governing the management of structural fund programmes.

17. The Committee thanks all those who gave evidence to the inquiry, details of which are included in Annex B. The Committee has used certain examples of

working practices given by witnesses to illustrate particular points of the report, and these are highlighted as ‘specific evidence’ boxes within the text.

The delivery of Structural Funds in Scotland

Overview of delivery mechanisms
18. The Scottish Government chose to use Community Planning Partnerships (CPPs) as strategic delivery bodies for spending some of the European Structural Funds allocated to Scotland following a series of reviews of the 2000-2006 programmes. The Cabinet Secretary for Infrastructure and Capital Investment explained that the Scottish Government was of the view that devolving responsibility for the European funds would stimulate more effective co-operation and partnership between local delivery organisations, leading to the development of more effective local strategies.

The utility of the CPP model
19. The Committee solicited evidence from various witnesses regarding the success of the move to the CPP model. Local authorities noted that the CPPs had brought a greater alignment with their own employability programmes and placed a greater emphasis on job outcomes. Other consequences of the change included the creation of a central point to train, support and lead small third sector organisations to access the ESF and to support them in the monitoring and compliance burdens.[6] Dundee City Council specifically commended the emergence of an inclusive ‘CPP network’ which included Scottish Government officials, and which met regularly to share expertise in mini thematic groups such as audit and compliance.[7]

20. The voluntary sector was less positive in their assessment of the move to CPPs, commenting on the issues created by local authorities as arbiters of match funding: ‘we face the conundrum of our local authority partners having to decide whether to support their own services or the third sector. I know that everyone expects the best services to be supported, but that is not always the case’ (West Fife Enterprise).[8] As a result there was a noticeable lower involvement of third sector organisations in the current programme. SCVO noted that ‘there is no one-size-fits-all mechanism’, and that both the current and previous models had their strengths.[9]

21. The Cabinet Secretary considered that greater involvement of the CPPs had helped to achieve a more joined up approach although he did concede that there had been not enough third sector involvement working with the CPPs to deliver projects. He set this as a goal for the future.[10] In supplementary evidence, the Cabinet Secretary also outlined the role that structural funds can have with regard to early intervention and preventative spend although he conceded that this was not their primary focus.[11]

6 EERC, 17 April 2012, Official Report, Cols 475-476 and 498
7 EERC, 17 April 2012, Official Report, Col 477
8 EERC, 1 May 2012, Official Report, Col 512
9 EERC, 1 May 2012, Official Report, Col 518
10 EERC, 15 May 2012, Official Report, Cols 548-9
11 Supplementary written evidence from the Scottish Government, 11 June 2012

22. **The Committee welcomes the Cabinet Secretary's commitment to improve the quality of third sector involvement in the CPPs delivery of projects, and asks to be kept informed of progress in this regard.**

Different approaches of delivery within CPPs

23. The Committee found that far from being a uniform delivery mechanism, CPP's had adopted different approaches to the delivery of funds. This differentiation was represented in evidence by Dundee City Council, where a partnership approach was taken, and Glasgow City Council, where a contract approach was adopted initially before a hybrid of the two models was developed.

24. The Scottish Government undertook an assessment of the CPP model of delivery in February 2011, which provides a useful adjunct to this report[12].

25. The majority of CPPs implemented a partnership model for oversight and delivery. Such a model involves the key partners designing a programme which has been built on a detailed understanding of local conditions, covering need and service delivery which identifies priorities, gaps and the relative strengths and weaknesses of delivery partners. Delivery is based either on the partners identifying organisations or through local bidding rounds to the partnership, or a combination of both.

26. Dundee City Council found the partnership approach productive but admitted that it had a tendency to make the council into a mini intermediate advisory board with the accompanying burdens of audit, claims, *etc*. - a role which was itself a challenge.

27. The other option for the CPPs is to pursue a contractual model. This model involves the approval of priorities by a strategic partnership of key organisations in the local area. A tendering process is then undertaken to select organisations (or in the case of Glasgow, consortia) to deliver activities against agreed targets. Contracts are put in place with the selected organisations which outline agreed tasks and costs.

28. Glasgow City Council found that the contract model avoided bureaucratic and compliance burdens and in their opinion delivered better value for money. However, Glasgow has moved to a hybrid of both partnership and contract models to react to reduced amounts of match funding available and the need to focus limited resources on key priorities.

29. Certain third sector witnesses from national bodies noted that differing approaches across Scotland can present a problem in ensuring a consistent and transparent approach to project delivery. To address this shortcoming, West Fife Enterprise suggested a common Scottish code of practice.

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[12] Blake Stevenson (2011) *European Structural Funds Programmes in Scotland (2007-2013): Evaluation of the Contribution of European Structural Funds to Community Planning Partnerships*, The Scottish Government.

30. Whilst the Cabinet Secretary conceded that there was a need for greater consistency across the programmes, he declared his desire to avoid a 'top down' prescriptive code of practice believing that it could stifle innovation[13].

31. **The Committee recognises the Cabinet Secretary's wish to avoid being prescriptive, but having reflected upon the evidence believes that greater consistency would assist the third sector to deliver projects more effectively. The Committee therefore asks the Scottish Government to work with stakeholders to create a common code of practice (to be in place before the new programmes of 2014 begin).**

The obstacles to securing funds

32. In discussing the various delivery mechanisms, witnesses outlined a number of barriers to accessing funds. The major obstacle was that the level of expertise and knowledge required to access the funds is not always available to smaller academic institutions or third sector organisations. SCVO noted that it no longer has the resources to provide technical assistance to third sector organisations, where previously it had provided comprehensive advice based on its knowledge base of other funds, governance and charity law. SCVO stated that this means that Scotland is the only country where the third sector does not have such assistance.[14]

33. In response, the Cabinet Secretary described the importance of Strategic Delivery Bodies in ensuring best practice is shared (see section below on 'sharing of good practice').[15]

34. The issues raised by the Scottish stakeholders have much in common with problems experienced by other EU regions as detailed in a recent European Commission study[16].

35. The witnesses raised a number of other barriers to accessing funds, but in the majority of cases these barriers related to the strictures imposed by the regulation itself and so are discussed below. Several witnesses noted the need to get programmes established early, to engage with all partners and stake holders early, and to ensure approval of projects in the next round at the earliest opportunity.[17]

36. The Scottish Government noted that the funds were often inflexible and therefore unable to address unexpected events, notably the recent banking crises and the crisis in the Eurozone.[18] Related to this was the need for greater flexibility in the creation of new products to deliver programmes.[19]

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[13] EERC, 15 May 2012, Official Report, Cols 549 - 551
[14] EERC, 1 May 2012, Official Report, Col 516
[15] EERC, 15 May 2012, Official Report, Col 555
[16] Barriers for Applicants to Structural Funding – Study, http://www.europarl.europa.eu/studies
[17] EERC, 20 March 2012, Official Report, Col 426
[18] EERC, 20 March 2012, Official Report, Col 428
[19] EERC, 17 April 2012, Official Report, Cols 474-475

Sharing of good practice

37. The Committee explored a number of options to share best practice and provide support to fund applicants:

38. **A central one-stop shop service:** This would involve the creation of a single agency tasked with providing all necessary support, guidance and mentoring for fund applicants. Such a service would provide support for access to all EU funding streams.

39. The consensus from witnesses was that such an approach would be 'far more complicated than it sounds'[20]. Concern was expressed about the resources required to provide this service, and the worry that it would provide only general assistance, i.e. not tailored to the needs to the range of would-be applicants. The initial assessment of whether funds could be used was possible, but time and investment would be required to assess whether Scotland could engage with those funds to deliver against planned objectives.

40. **Sharing the burden:** Scottish Enterprise thought there was no single overall organisation that would have all the knowledge and expertise to advise on accessing funds and so it should be done collectively, i.e. through an advisory body or steering group. It was noted that one body could lead and synchronise the work[21].

41. **A Champion's list:** Dundee City Council suggested that the creation of a list of established experts who could be called upon to provide support and guidance would be of value.[22] It was noted that such a service is provided by consultants but that it comes at an often prohibitive cost for small organisations and third sector bodies. Such a voluntary service would depend upon the willingness of experts to give freely of their time.

42. **Strategic Delivery Bodies:** The Cabinet Secretary pointed to the Strategic Delivery Bodies as having a key role in ensuring best practice is shared amongst all stakeholders, including successful and unsuccessful applicants.

43. **The role of Government:** The Cabinet Secretary noted that performance was variable, and admitted that the Scottish Government had a role to play in finding methods to allow best practice to be shared across the board to encourage greater levels of success in the future. The Cabinet Secretary described the support networks available to Scottish stakeholders that were intended to provide this role. These included the Enterprise Europe Network and Scotland Europa's work in supporting over 50 Scottish organisations from public sector bodies, universities, business and trade unions to learn from others.[23]

44. **The Committee recognises that a lack of knowledge of processes is a major barrier to accessing funds and is therefore a disincentive to applicants. The Committee believes that the best approach to increase sharing expertise would be to create a 'champions list' which would provide**

[20] EERC, 17 April 2012, Official Report, Col 492
[21] EERC, 17 April 2012, Official Report, Col 485
[22] EERC, 17 April 2012, Official Report, Col 493
[23] Supplementary written evidence from the Scottish Government, 29 May 2012

details of those with knowledge and skills that are willing to support organisations through the application process. The Committee calls on the Scottish Government to develop such a list in collaboration with stakeholders and the strategic development bodies and to publicise the list ahead of the new funding period.

The issues around match funding (co-financing)[24]

45. Historically, structural funds in Scotland have been delivered through a system of challenge fund bidding. This involved three stages: (i) the identification of the ‘challenges to be addressed; (ii) the development of a programme to address the challenges; (iii) project deliverers bidding for EU funding whilst simultaneously seeking the required match funding.

46. For 2007-2013 structural fund programmes the Scottish Government introduced a system of co-financing, whereby EU funds were lodged with public bodies (known as strategic delivery bodies or co-financing organisations[25]) that were then tasked with inviting bids from interested parties. Details of the co-financing available in Scotland for the 2007-2013 period is included in Annex E. Limited funds were also set aside for a limited programme with challenge fund bidding. One of the key advantages of introducing co-financing was the removal of the requirement of projects to find match funding.

47. Witnesses were generally supportive of the Scottish Government’s adoption of co-financing, noting a number of benefits: (i) a more strategic approach to funding, with projects aligned with the Scottish Government’s priorities and thus more likely to secure funds[26]; (ii) rendering the securing of match funding a more straightforward process; (iii) increasing the flexibility of the co-financing organisations in terms of delivery models; and (iv) allowing match fund providers (who are already in possession of a known sum of monies) to solicit bids, and encourage interest from non-traditional bidders[27].

48. **The Committee welcomes the continued use of Strategic Delivery Bodies and the use of co-financing as it believes it allows for a more strategic approach to the delivery of the funds across Scotland.**

49. Several witnesses advocated the use of the ‘unit costing’ concept[28] – originally employed in the education sector – for the support of full-time training

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[24] ‘Match Funding’ refers to the non-EU funded component of a particular project. EU funds normally contribute between 45% and 75% of the total cost of a project, with the remainder contributed by the project sponsor. The percentage EU contribution is known as the intervention rate and varies according to the ‘priority’ of the region and nature of the proposed measure.

[25] Co-financing organisations used in the current programme include Scottish Enterprise, Local Authorities, Universities and Further Education institutes along with a number of voluntary sector organisations. For further details see EER Committee paper EU/S4/12/7/1.

[26] The Committee did express some concerns that the alignment of projects with national priorities may eclipse the local priorities. Several witnesses believed that there was a need for a more inclusive definition of strategic priorities, particularly in areas such as skills and employability, connectivity, creativity and innovation in business, low carbon economy would go some way to address this issue.

[27] EERC, 17 April 2012, Official Report, Col 491

[28] For definition of tool see http://www.businessdictionary.com/definition/unit-cost.html

places[29]. The University of the Highlands and Islands (UHI) highlighted its Postgraduate Research Allowance project, which has used the new unit costing methodology to target ESF towards priority sectors through the provision of additional PhD student places. UHI have found this to be a simplified approach which substantially benefits smaller institutions, reduces the need for large numbers of dedicated finance and administrative support, and allows far greater participation and concentration of resources on outputs rather than processes.

An integrated approach to accessing all EU funds

50. A number of EU funds exist in addition to the structural and cohesion funds (a summary of such funds is included in Annex H). These funds have significant overlap in terms of purpose, expected output and eligibility. Several witnesses expressed unfamiliarity with the full range of funds, and concern that the rules for draw-down, management and reporting vary from fund to fund, so hampering application[30].

51. Witnesses suggested that a more strategic approach should be taken to accessing EU funds. Highlands & Islands Enterprise commented that a national strategic plan would aid this approach by providing a national overview.[31] This call was echoed by UHI who called for a 'Single Scottish plan, identifying shared aims and objectives… to achieve more for Scotland plc*'*.[32] Witnesses also called for funds to be set aside to undertake a market gap analysis to highlight Scotland's needs.[33] Glasgow City Council highlighted that significant support would be required to allow interested parties to access any new funds, and that caution was required when it came to managing resources to secure monies and managing expectations about the likely success of drawdown.[34]

52. The Committee learned that Scottish Government officials have established a programme board to consider the scope and practicality of closer integration across the various funds and hope to reach conclusions by summer 2012.[35,] Commenting on this, the Cabinet Secretary stated, 'If I were looking to the future in terms of the process of delivery, greater integration would be top of my agenda.'[36]

53. However, despite a partnership approach with the UK Government and the European Commission, the Cabinet Secretary stated that the work was not progressing as fast nor as far as desired, and that 'getting the degree of integration that we would like is probably not possible'.[37] The Scottish Government is working closely with the UK Government, the Welsh Government and the Northern Ireland Assembly to lobby the European Commission and Parliament on this matter.

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[29] WOSCOP written evidence to EERC.
[30] EERC, 17 April 2012, Official Report, Col 487
[31] EERC, 17 April 2012, Official Report, Col 486
[32] EERC, 1 May 2012, Official Report, Col 528
[33] Scotland Europa suggested that microfinance funding and 'top end' infrastructure financing for larger projects would be an important future focus. Scottish Enterprise highlighted the need for a focus on the right types of financial instrument to create the correct focus for SMEs.
[34] EERC, 17 April 2012, Official Report, Col 487
[35] Scottish Government correspondence to EERC, 31 Jan 2012
[36] EERC, 15 May 2012, Official Report, Col 549
[37] EERC, 15 May 2012, Official Report, Cols 549, 555 and 556

54. By way of example, the Cabinet Secretary described his endeavours to institute an integrated approach to access the €40bn European connectivity fund for investment in broadband, energy and transport. He stated that local authorities and CPP's were being kept abreast of progress, to allow delivery bodies and those wishing to access the funds to prepare bids[38].

55. Several witnesses stressed the potential benefits of a greater synergy between Structural Funds and the Horizon 2020 programme in particular. In its recent inquiry into Horizon 2020, the Committee explored these synergies[39]. The European Commission has sought to further develop these synergies under its Smart Specialisation Platform initiative[40]. The Scottish Government has already submitted details of a specific Scottish strategy to the initiative with the intention of joining the platform later in the year.[41]

56. **The Committee welcomes the Scottish Government's progress on developing this strategy and asks that the Committee is kept informed of progress.**

57. Several witnesses, including UHI and Highlands & Islands Enterprise acknowledged a need for more creative research collaborations between capacity-building institutions and established experts to allow this synergy to flourish.[42] UHI also called for specific provision to ensure better connection between the European Social Fund (ESF), which focuses upon training and educational output and the European Regional Development Fund (ERDF) which focuses upon research and innovation[43], thereby creating a 'full tertiary continuum' from 'apprenticeship to PhD'.[44]

58. Finally the Committee asked about other EU funds. The Cabinet Secretary replied that EU policy and funding work is 'firmly embedded in Scottish partners' activities'. He explained that the refreshed Government Economic Strategy recognises the importance of EU funding to "provide better, more focused, support across our Strategic Priorities" and is 'significant in our efforts to increase Scotland's trade and investment, support innovation and commercialisation, and develop our low carbon and renewables agenda.' The Strategy underlined the Government's 'longer-term strategic ambitions, presenting Scotland as a significant player - and partner of choice - within Europe.'

Financial instruments

59. The strategic delivery bodies told the Committee that the Commission's emphasis on development of financial instruments in the 2007-13 programme

[38] EERC, 15 May 2012, Official Report, Cols 556 - 557
[39] EERC, 4th Report, 2012 (Session 4): The EU's Horizon 2020 Programme for Research and Innovation
[40] http://s3platform.jrc.ec.europa.eu/home
[41] Meeting of Scottish Parliament, Ministerial Statement by the Cabinet Secretary for Infrastructure and Capital Investment on the future of European structural funds from 2014, 9 May 2012.
[42] EERC, 1 May 2012, Official Report, Col 523
[43] EERC, 1 May 2012, Official Report, Cols 523 - 525
[44] EERC, 1 May 2012, Official Report, Col 526

(such as JEREMIE[45] and SPRUCE[46]) had been helpful in unlocking finance for Scottish businesses. This trend was expected to continue.

60. Scottish Enterprise and Scotland Europa told the Committee that Scotland would benefit from a market gap analysis (as per European Commission requirements) which would outline areas in need of investment, and that both microfinance funding and the top end of infrastructure financing for larger projects should be an important future focus.[47] Scottish Enterprise highlighted that there should be a focus on the right types of financial instrument to create the correct focus for SMEs, such as investment on life sciences and renewables.[48]

61. The Cabinet Secretary agreed that better use could be made of these instruments, adding that the Commission was open to creative possibilities that the Scottish Government was currently investigating such as supporting low carbon initiatives which could create significant impact in the rural economy.[49]

Specific evidence on integration: West of Scotland Colleges' Partnership (WOSCOP)

WOSCOP's role is to act as a strategic hub to allow west of Scotland colleges to exploit and identify European funding programmes that enhance or extend what they provide. This often involves member colleges collaborating and co-operating with national and European partners such as local authorities, CPPs, the third sector and employers to create more employment and skills. Colleges have found this assistance valuable in procuring better facilities and higher numbers of course places (for example, Coatbridge College has been refurbished using a £1.5M ERDF investment). [50]

62. **The Committee welcomes the increased integration of the funds and the use of financial instruments via initiatives such as JEREMIE and SPRUCE. The Committee asks the Scottish Government to report back after summer 2012 on the progress of its work to achieve closer integration across the various funds, particularly on creating more links of the appropriate financial instruments with the organisations and sectors that could utilise them such as SMEs.**

[45] JEREMIE (Joint European Resources for Micro to Medium Enterprises) is an initiative of the European Commission developed together with the European Investment Fund. It promotes the use of financial engineering instruments to improve access to finance for SMEs via Structural Fund intervention.
[46] The Scottish Partnership for Regeneration in Urban Centres (SPRUCE) Fund is a JESSICA (Joint European Support for Sustainable Investment in City Areas) Urban Development Fund that is a source of funding for regeneration and energy efficiency projects within targeted areas of Scotland.
[47] EERC, 17 April 2012, Official Report, Col 490
[48] EERC, 17 April 2012, Official Report, Col 484
[49] EERC, 15 May 2012, Official Report, Cols 563
[50] Written evidence from WOSCOP and Coatbridge College to EERC.

The proposed EU regulation

Addressing application issues and the simplification agenda

63. The European Commission adopted on 8 February 2012 a Communication dedicated to the simplification of the structural funds procedure[51]. Some of the proposed measures build upon changes introduced in the 2007-2013 period, while others are new. The Commission is actively encouraging all those organisations connected with structural funds to engage with the simplification process.

64. Issues cited by witnesses as requiring greater simplification and de-cluttering included:

65. **Compliance demands:** A common criticism from stakeholders was that organisations regularly committed substantial resources to dealing with laborious processes such as auditing and compliance - rather than delivering outcomes[52]. It was noted that part of the issue could be due to how CPPs interact with the delivery agents, a matter that should be addressed in the future.[53]

66. The Cabinet Secretary noted that reform of the auditing process was a matter for the Commission, but he would do all in his power to bring about reform[54]. He agreed that the auditing system was too onerous and too much money was being spent in this area. He was keen that projects which secured amounts under £250,000 should have substantially reduced, more proportionate auditing.

67. **Application costs:** Concern was expressed at the loss of the 30% advance payment which was used by organisations to begin and support the application. SCVO stated that this has created cash-flow problems for small organisations so that in many respects fund application has become viable only for large organisations with an established cash flow.[55]

68. **Issues of rule interpretation:** Several witnesses noted that the same rules can be interpreted in sometimes subtle, sometimes not so subtle ways by the EU institutions involved in the structural funds[56]. West of Scotland European Consortium (WOSEF) explained that EU organisations such as the European Commission and the European Court of Auditors were the most common perpetrators of differing interpretations.[57]

69. **Eligibility criteria:** The narrow and restricted nature of the eligibility criteria in the 2007-14 programme[58] and the duplication and overlap with the CAP rural development programme[59] were highlighted by the South of Scotland Alliance and others as barriers to application, particularly for rural areas (see specific evidence example of the Borders College in the box below).

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[51] Common Strategic Framework staff working document: http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part1_en.pdf
[52] EERC, 13 December 2011, Official Report, Cols 250-251
[53] EERC, 20 March 2012, Official Report, Cols 431-432
[54] EERC, 15 May 2012, Official Report, Cols 561-562
[55] EERC, 1 May 2012, Official Report, Col 513
[56] EERC, 13 December 2011, Official Report, Cols 236-237
[57] Report of EERC round table discussion, 13 December 2011, see Annex F.
[58] Particularly with reference to priority 4 under the Lowlands and Uplands Scotland Programme
[59] EERC, 17 April 2012, Official Report, Cols 474-475

70. The Scottish Government accepted that this was an issue and stated that they were considering various approaches to support rural areas such as identifying money to support digital infrastructure, which worked within such barriers, and that asset backed financial vehicles such as SPRUCE[60] could be extended beyond urban regeneration to rural regions.[61]

Specific evidence on eligibility and processes: Borders College
Borders College has had a much reduced engagement with the 2007-13 programme compared to the earlier 2000-2006 programme. The principal barriers to application cited by the college were:

- the introduction of narrower criteria, with a greater number of preconditions that must be met before application;
- a new emphasis on larger, more strategic collaborations with CPPs, which do not always marry up with the strategic objectives of the institution ; and
- a greater focus upon business and enterprise as opposed to further education activity and training.

The College suggested several solutions including the provision of greater Government support to create and maintain links between educational establishments and SMEs, as well as a greater focus upon new and emerging technology to connect up remote and rural areas with both students, those pursuing on-job training, and SMEs.[62]

71. **Red tape:** Almost all witnesses complained about the 'red tape' involved in applying for EU funding. The Committee asked the Scottish Government what could be done about these bureaucratic issues. The Government responded that although it was presently collaborating with other devolved regions the UK Government resolution was proving to be a great challenge. The Cabinet Secretary noted that regulations for various funds often contradicted each other thereby creating difficulties when seeking a common set of provisions across funds to improve accessibility.

72. **Funding periods:** The Cabinet Secretary lamented the fact that the EU funds tended to adhere to significantly different funding and reporting periods, thereby creating onerous auditing problems, *e.g.* 7 years for a programme of structural funds but rural programmes closed their accounts annually[63]. He noted that this issue was regularly discussed by ministers from the UK and devolved governments, but that a resolution of the issue has proven elusive.

Monitoring and auditing in Scotland

73. Witnesses from the third sector raised concerns that more resources were being spent on monitoring EU funds received than on measuring outcomes and

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[60] The £50m Scottish Partnership for Regeneration in Urban Centres (SPRUCE) Fund is a JESSICA (Joint European Support for Sustainable Investment in City Areas) UDF (Urban Development Fund) that is a source of funding for regeneration and energy efficiency projects within targeted areas of Scotland.
[61] EERC, 15 May 2012, Official Report, Cols 559-560
[62] Written evidence from Borders College to EERC
[63] EERC, 15 May 2012, Official Report, Cols 553-555

thus the legacy of the funds. In correspondence with the Committee, the Cabinet Secretary noted that monitoring and evaluation of Structural Funds programmes takes place at a range of levels. He stated that at programme level, the Scottish Government, as Managing Authority, is required to set out an Evaluation Plan for consideration by the respective Programme Monitoring Committees. The plan identifies potential subjects for evaluation. With the discontinuation of mid-term evaluations, the Scottish Government has instituted a more thematic approach[64].

74. Evaluations undertaken to date include a review of the extent to which programmes remained fit for purpose to respond to the recession and support recovery, a review of programme activity delivered through the Community Planning Partnerships and a detailed survey of participants in Social Fund projects aimed at unemployed people.

The legacy of structural funds

75. The Committee considered the legacy of structural funds, and how outcomes could be assessed and quantified. Witnesses told the Committee that it is too early to gauge the success of the current programmes. Third sector witnesses stated that the move away from a bottom up local approach has led to less added value and visible outcomes, and that more effort is spent on auditing the money going in than on outcomes.[65]

76. The Committee asked the Scottish Government how it would measure outcomes from the future 2014-2020 programmes, and what mechanisms could be used to facilitate transparent and accessible measuring of the national results overall. In response, the Cabinet Secretary said that systematic evaluation of all programmes at different stages existed, *e.g.* forecast of outcomes, programme design is designed to maximise outcomes and outcomes are then measured at the programmes' end.[66]

77. **The Committee asks to be kept informed of the Scottish Government's progress in reducing bureaucracy and promoting simplification both in the areas in which it has exclusive competence and in the areas in which it must collaborate with the UK Government.**

78. **Specifically the Committee would welcome regular reports on the implementation of the European Commission's proposed reforms in the areas of compliance, simplification of eligibility criteria, reduction of red tape and achieving greater overlap between the funding periods and cycles**.

79. **The Committee would also welcome a report from the Scottish Government on the impact of the loss of the 30% advance payment and how it intends to address the cash-flow problems that will result.**

[64] Supplementary written evidence from the Scottish Government, 29 May 2012
[65] EERC, 1 May 2012, Official Report, Col 517
[66] Supplementary written evidence from the Scottish Government, 29 May 2012

Lessons from other EU regions

80. The Committee considered the issue of how Scotland could share its knowledge of structural funds with other EU countries. Scottish Enterprise described Scotland's progress to date from their perspective:

'Scotland is internationally recognised as one of the best-developed early-stage risk capital markets, certainly outside the US. The European Commission regularly uses us—and especially the Scottish co-investment fund—as an exemplar…We regularly get queries from people around the world. Our co-investment fund model has been replicated in various countries, such as New Zealand, Canada and parts of the European Union. People from the European Investment Fund have spent a few days with us to go into detail on what we do. It piloted a version of the Scottish co-investment fund in Germany and, earlier this year, announced that it would introduce Europe-wide what it calls an angel capital fund. We are really good at sharing knowledge with regard to financial instruments...' [67]

81. Scotland Europa described their work through some of the bigger European networks, such as the European Association of Development Agencies and the European Regions Research and Innovation Network, 'not only to profile some of the activity that is going on in Scotland but to find out about activity that is going on in Europe and any delivery models from which we might learn lessons'. [68]

82. The South of Scotland Alliance suggested that more could be done in this area on both an urban and rural basis, and there was a need to support and encourage interregional projects with other countries to open up opportunities with regard to innovation and creativity, for example, via a support structure.[69] Scottish Borders Council as an example had considered linking with a Swedish region to share practice on tourism, innovation and creativity but current limits on public expenditure had made it difficult to maintain momentum.[70]

83. One solution could be for Scotland to look at the ways in which it can continue to access territorial co-operation funding between 2014 and 2020. Territorial Cooperation funding can be used to promote joint working to tackle common challenges across Member States. Territorial co-operation comprises three strands: interregional, cross-border and transnational. The Commission's proposal for 2014 - 2020 allocates €11.7bn to this area, and if Scotland established cross-border or transnational programmes with other Member States it would be able to bid for some of this money.

84. **The Committee requests that the Scottish Government outlines how it intends to ensure that local authorities, CPPs and potential fund participants are kept abreast of developments to ensure that they are well able to take advantage of opportunities for exchange of information as they occur.**

85. **The Committee recognises the value of the current cross-border territorial cooperation programme in which Scotland participates along with Northern Ireland and Ireland (Interreg IVa) and also recognises the value of**

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[67] EERC, 17 April 2012, Official Report, Col 492-493
[68] EERC, 17 April 2012, Official Report, Col 494
[69] EERC, 17 April 2012, Official Report, Col 488
[70] EERC, 17 April 2012, Official Report, Col 493-494

the Transnational (Interreg IVb) programmes in which Scotland participates along with regions of other Member States.[71]

86. **Based on this success the Committee asks the Scottish Government to outline how it intends to encourage and facilitate continued and greater co-operation between Scotland's regions and the regions of other Member States in the area of Territorial Cooperation during the 2014-2020 programming period.**

Final recommendation

87. **Given the importance of the structural funds to Scotland, the Committee would request that the Scottish Government keep it abreast of all developments in the on-going negotiations.**

88. **The Committee recommends that the Scottish Government continues to be involved in key discussions at the UK level to ensure that Scotland's particular needs and concerns are reflected in the negotiations, and provides regular updates to the committee.**

89. **The Committee calls on the Scottish Government to ensure that UK Government both recognises and articulates the Scottish position within the EU General Affairs Council and to ensure that the Scottish Government continues to liaise with Scotland's MEPs on the legislative proposals for the future EU structural funds 2014-2020.**

[71] Transnational programmes involving Scotland are the Northern Periphery Programme, the North West Europe Programme and the Atlantic Area Programme. Scotland's four NUTS II regions (Highlands and Islands, North-eastern Scotland, Eastern Scotland and South-western Scotland) participate in these programmes as appropriate.

Annex A - Extracts of minutes of the European and External Relations Committee

8th Meeting, 2011 (Session 4)
Tuesday 13 December 2011

2. **EU Structural Funds:** The Committee took evidence in a round-table discussion from—

Lesley Cannon, EU Funding Manager, Scotland Europa;

Malcolm Leitch, Principal Officer, Glasgow City Council (representing West of Scotland European Forum (WOSEF));

Ingrid Green, Policy Officer, East of Scotland European Consortium (ESEC);

Morag Keith, Business Manager, West of Scotland Colleges' Partnership (WoSCoP);

Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress (STUC);

Serafin Pazos-Vidal, Head of Brussels Office, COSLA;

Linda Stewart, Head of European Development, University of the Highlands and Islands (UHI).

1st Meeting, 2012 (Session 4)

Tuesday 10 January 2012

5. **EU Structural Funds (in private):** The Committee agreed on a report from its meeting on 13 December 2011 of its round table discussion with stakeholders regarding EU Structural Funds. The Committee agreed to send the report and follow-up questions to the Cabinet Secretary for Finance, Employment and Sustainable Growth.

3rd Meeting, 2012 (Session 4)

Tuesday 7 February 2012

3. **EU Structural Funds:** The Committee agreed its approach for an inquiry on EU Structural Funds .

6th Meeting, 2012 (Session 4)

Tuesday 20 March 2012

1. **EU Structural Funds:** The Committee took evidence from—

    Dennis Malone, Chief Executive, Highlands and Islands Programme Partnership (HIPP) Ltd;

    Gordon McLaren, Chief Executive, ESEP Ltd;

    David Souter, Team Leader, Lowlands and Uplands Scotland, and

    Jim Millard, Team Leader, Highlands and Islands, Transnational and Cross Border, European Structural Funds, Scottish Government.

7th Meeting, 2012 (Session 4)

Tuesday 17 April 2012

2. **EU Structural Funds:** The Committee took evidence from—

    Pat McHugh, Investment Director, Scottish Investment Bank, and Lesley Cannon, EU Funding Manager, Scotland Europa, Scottish Enterprise;

    Rob Clarke, Head of Policy, Highlands and Islands Enterprise (HIE);

    Sharon Thomson, Programme Manager - Glasgow Works, Glasgow City Council;

    Michelle Gautier, Dundee European Project Manager, Dundee City Council;

    Douglas Scott, Senior Consultant, Scottish Borders Council and member, South of Scotland Alliance.

8th Meeting, 2012 (Session 4)

Tuesday 1 May 2012

3. **EU Structural Funds:** The Committee took evidence from—

    Alison Cairns, Head of Development, Scottish Council for Voluntary Organisations (SCVO);

    Alan Boyle, Chief Executive, West Fife Enterprise;

Laurie Russell, Chief Executive, Wise Group;

Dr Jeff Howarth, Vice-Principal (Research & Commercialisation), University of the Highlands and Islands (UHI);

Graeme Hyslop, Chair, West of Scotland Colleges' Partnership (WoSCoP), and Principal, Langside College;

Derek Banks, Director of Finance and Estates, Coatbridge College.

Jamie McGrigor declared an interest as a member of the Scottish Association for Marine Science (SAMS).

9th Meeting, 2012 (Session 4)

Tuesday 15 May 2012

2. **EU Structural Funds:** The Committee took evidence from—

    Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, Scottish Government; Shane Rankin, Deputy Director, and Lynn Forsyth, Senior Policy Officer, European Strucutral Funds Division, Scottish Government.

10th Meeting, 2012 (Session 4)

Tuesday 19 June 2012

4. **EU Structural Funds (in private):** The Committee considered a draft report for its inquiry and agreed to consider a revised draft at its next meeting.

11th Meeting, 2012 (Session 4)
Tuesday 26 June 2012

2. **EU Structural Funds (in private):** The Committee considered a draft report for its inquiry. Various changes were agreed to and the Committee agreed to publish its report subject to final amendments by correspondence.

Annex B - Oral evidence and associated written evidence

Please note that all oral evidence and associated written evidence is published electronically only, and can be accessed via the Europe and External Relations Committee's webpages, at:

http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29814.aspx

8th Meeting, 2011 (Session 4) Tuesday 13 December 2011

WRITTEN EVIDENCE

Scotland Europa
West of Scotland European Forum (WOSEF)
East of Scotland European Consortium (ESEC)
West of Scotland Colleges' Partnership (WoSCoP)
Convention of Scottish Local Authorities (COSLA)
University of the Highlands & Islands (UHI)
Scottish Council for Voluntary Organisations (SCVO)
Universities Scotland

ORAL EVIDENCE

Lesley Cannon, EU Funding Manager, Scotland Europa
Malcolm Leitch, Principal Officer, Glasgow City Council (representing West of Scotland European Forum (WOSEF))
Ingrid Green, Policy Officer, East of Scotland European Consortium (ESEC)
Morag Keith, Business Manager, West of Scotland Colleges' Partnership (WoSCoP)
Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress (STUC)
Serafin Pazos-Vidal, Head of Brussels Office, COSLA
Linda Stewart, Head of European Development, University of the Highlands and Islands (UHI)

3rd Meeting, 2012 (Session 4), Tuesday 7 February 2012

WRITTEN EVIDENCE

Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment

ORAL EVIDENCE

Fiona Hyslop, Cabinet Secretary for Culture and External Affairs, Elspeth MacDonald Deputy Director of Constitution and Europe Division, and Graeme Roy, Senior Economist, Office of the Chief Economic Adviser, Scottish Government

SUPPLEMENTARY EVIDENCE

Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, 29 May 2012
Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, 11 June 2012

6th Meeting, 2012 (Session 4), Tuesday 20 March 2012

ORAL EVIDENCE

Dennis Malone, Chief Executive, Highlands and Islands Programme Partnership (HIPP) Ltd
Gordon McLaren, Chief Executive, ESEP Ltd
David Souter, Team Leader, Lowlands and Uplands Scotland, and Jim Millard, Team Leader, Highlands and Islands Transnational and Cross Border, European Structural Funds, Scottish Government

7th Meeting, 2012 (Session 4) Tuesday 17 April 2012

WRITTEN EVIDENCE

South of Scotland Alliance

ORAL EVIDENCE

Pat McHugh, Investment Director, Scottish Investment Bank and Lesley Cannon, EU Funding Manager, Scotland Europa, Scottish Enterprise
Rob Clarke, Head of Policy, Highlands and Islands Enterprise (HIE)
Sharon Thomson, Programme Manager - Glasgow Works, Glasgow City Council
Michelle Gautier, Dundee European Project Manager, Dundee City Council
Douglas Scott, Senior Consultant, Scottish Borders Council and member, South of Scotland Alliance

SUPPLEMENTARY EVIDENCE

Scotland Europa
Highlands and Islands Enterprise (HIE)

8th Meeting, 2012 (Session 4) Tuesday 1 May 2012

WRITTEN EVIDENCE

Coatbridge College
University of the Highlands & Islands (UHI)
West of Scotland Colleges' Partnership (WoSCoP)
Langside College

ORAL EVIDENCE

Alison Cairns, Head of Development, Scottish Council for Voluntary Organisations (SCVO)
Alan Boyle, Chief Executive, West Fife Enterprise
Laurie Russell, Chief Executive, Wise Group
Dr Jeff Howarth, Vice-Principal (Research & Commercialisation), University of the Highlands and Islands (UHI)
Brendan McGuckin, Head of Commercialisation, Edinburgh Napier University
Graeme Hyslop, Chair, West of Scotland Colleges' Partnership (WoSCoP), and Principal, Langside College
Derek Banks, Director of Finance and Estates, Coatbridge College

9th Meeting, 2012 (Session 4) Tuesday 15 May 2012

WRITTEN EVIDENCE

Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment

ORAL EVIDENCE

Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, Shane Rankin, Deputy Director, and Lynn Forsyth, Senior Policy Officer, European Structural Funds Division, Scottish Government.

Annex C - Priority areas for spend

In order to maximise the impact of the policy in delivering European priorities, the Commission has proposed reinforcing the strategic programming process. This involves defining a list of thematic objectives in the Regulation in line with the Europe 2020 Strategy:

(1) strengthening research, technological development and innovation;

(2) enhancing access to and use and quality of information and communication technologies;

(3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF);

(4) supporting the shift towards a low-carbon economy in all sectors;

(5) promoting climate change adaptation, risk prevention and management;

(6) protecting the environment and promoting resource efficiency;

(7) promoting sustainable transport and removing bottlenecks in key network infrastructures;

(8) promoting employment and supporting labour mobility;

(9) promoting social inclusion and combating poverty;

(10) investing in education, skills and lifelong learning;

(11) enhancing institutional capacity and an efficient public administration."

These 11 objectives are the overarching aims which the 2014-2020 structural fund programmes should be targeted at.

To back up this targeted approach of achieving the European Union's EU2020 targets, the Commission has proposed the development of Partnership Contracts between the Commission and each Member State.

The Commission has also proposed moving from providing grants to projects to providing loans.

<u>Conditions of Spending</u>

To reinforce performance, new conditionality provisions will be introduced to ensure that EU funding creates strong incentives for Member States to deliver Europe 2020 objectives and targets. Conditionality will take the form of both 'ex ante' conditions that must be in place before funds are disbursed and 'ex post' conditions that will make the release of additional funds contingent on performance.

'Ex post' conditionality will strengthen the focus on performance and the attainment of the Europe 2020 objectives. It will be based on the achievement of milestones related to targets for outputs and results linked to Europe 2020 objectives set for programmes in the partnership contract. 5% of the budget of the relevant funds will be set aside and allocated, during a mid-term performance review, to the Member States whose programmes have met their milestones.

Simplified Rules and Procedures

The Commission has accepted that the rules governing allocation of funds are complex. In the new funding cycle, the Commission aims to harmonise the basic rules for instruments implemented under shared management, in order to reduce the multiplicity of rules applied on the ground. Simplified costs options such as flat rates and lump sums provide the means for Member States to introduce performance-oriented management at the level of individual operations. Common provisions on the delivery include common rules on eligible expenditure, the different forms of financial support, simplified costs, and durability of operations. The proposal also envisages common principles for the management and control systems."

The Commission's Common Strategic Framework

In March 2012 the European Commission published its proposals for a Common Strategic Framework. According to the Commission:

> "It is intended to help in setting clear investment priorities for the next financial planning period from 2014 until 2020 in Member States and their regions. It will enable a far better combining of various funds to maximise the impact of EU investments. National and regional authorities will use this framework as the basis for drafting their 'Partnership Contracts' with the Commission, committing themselves to meeting Europe's growth and jobs targets for 2020."

In particular the Commission suggested that the proposals provide a set of strategic guidelines and a single source of guidance for all five future Funds, (ERDF, ESF, Cohesion Fund, European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund).

Lowlands and Uplands Scotland Programme

The European Regional Development Fund programme consists of four priority areas. These are:

- Priority 1 - Research and Innovation: €92.11m (about £89.73m)
- Priority 2 - Enterprise Growth: €122.19 m (about £119.03m)
- Priority 3 - Urban Regeneration: €101.51m (about £98.89m)
- Priority 4 - Rural Development: €51.13m (about £49.81m)

The European Social Fund programme consists of three priority areas. These are:

- Priority 1 - Progressing into Employment: €121.19m (about £118.01m)
- Priority 2 - Progressing through Employment: €99.6m (about £97.01m)

- Priority 3 - Improving Access to Lifelong Learning: €42.65m (about £41.55m)

All parts of the Lowlands and Uplands Programme area are eligible for funding. However, there are geographical restrictions under some of the priorities. Eligibility will be limited to particular parts of the region in the following three priorities:

- ESF Priority 1- Progressing Into Employment
- ERDF Priority 3 - Urban Regeneration
- ERDF Priority 4- Rural Development

<u>Highlands and Islands Partnership Programme</u>

The Highlands and Islands Partnership Programme also consists of a European Regional Development Fund programme worth around €121.9 million and a European Social Fund programme worth around €52.1million.

Each Programme has 4 Priorities, the fourth for Technical Assistance to operate the Programmes.

The European Regional Development Fund programme consists of three priority areas. These are:

- Enhancing Business Competitiveness, Commercialisation and Innovation
- Enhancing Key Drivers of Sustainable Growth
- Enhancing Sustainable Growth of Peripheral and Fragile Areas

The European Social Fund programme consists of three priority areas. These are:

- Increasing the Workforce
- Investing in the Workforce
- Improving Access to Lifelong Learning

Annex D: Community Planning Partnerships

Community Planning Partnerships emerged following the Local Government in Scotland Act 2003, with the aim of establishing a process in which public agencies work together with the community to plan and deliver better services. The Act provided the statutory basis for community planning. It placed a duty on local authorities to initiate and facilitate community planning, and on core partners (NHS Boards, Police, Fire and Rescue services, Enterprise Networks and Regional Transport Partnerships) to participate. In addition, Community Planning Partnerships were to involve other non-statutory partners, for example public bodies, voluntary organisations, local communities and businesses.

The statutory guidance accompanying the legislation1 identifies two aims for community planning:

- to ensure people and communities are genuinely engaged in the decisions made on the public services which affect them; and
- joint working – a commitment from organisations to work together in providing better public services.

These aims are supported by two further principles:

- to provide the overarching partnership framework, helping to co-ordinate other initiatives and partnerships and where necessary, acting to rationalise a cluttered landscape; and
- offering a mechanism to balance national priorities and those at regional, local, and neighbourhood levels.

Community Planning Partnerships cover the full range of planning issues, such as the local economy, regeneration, the environment, health and wellbeing, community safety and sustainable development. They have a particular emphasis on areas of work where collaboration between partners will have the greatest impact.

CPPs deliver integrated employment services and have a history of co-ordinating large scale programmes financed through budgets such as the Fairer Scotland Fund. The decision was taken to distribute ESF through CPPs at the start of the most recent funding round (2007-2013) as by this point CPPs were well established, strategic, and very well placed to deliver the key objectives of European Funding.

Annex E - Co-financing

Organisation Type	Total Expenditure	Total Match Funding	Total Grant
Central Government Departments/Agencies[72]	£179,694,707.83	£103,911,157.89	£77,324,624.41
Local Authority	£143,328,815.99	£92,974,722.29	
SE/HIE Network	£142,098,918.70	£108,192,055.37	£58,706,862.99
Voluntary Sector	£126,791,740.99	£80,681,691.63	£47,701,949.31
Higher Education	£104,579,914.24	£64,926,693.92	£37,818,001.31
Further Education	£60,209,161.73		
Other	£36,512,588.45		£12,155,294.82
Local Economic Bodies	£24,674,089.99		
Tourist Organisations	£263,663.33	£128,039.48	£84,261.42
	£818,153,601.25	£528,551,954.32	

(Figures provided by the Scottish Government)

[72] The main organisations to fall under this category include Skills Development Scotland, VisitScotland, Scottish Further and Higher Education Funding and the Forestry Commission Scotland.

Annex F - summary of roundtable discussion at EERC meeting of 13 December 2011

Background

The Committee staged a roundtable discussion on the implications for Scotland of the proposals for the 2014 – 2020 round of EU Structural Funds at its meeting of 13 December 2011.

The participants were:

Lesley Cannon, EU Funding Manager, Scotland Europa;

Malcolm Leitch, Principal Officer, Glasgow City Council (representing West of Scotland European Forum (WOSEF));

Ingrid Green, Policy Officer, East of Scotland European Consortium (ESEC);

Morag Keith, Business Manager, West of Scotland Colleges' Partnership (WoSCoP);

Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress (STUC);

Serafin Pazos-Vidal, Head of Brussels Office, COSLA;

Linda Stewart, Head of European Development, University of the Highlands and Islands (UHI).

The Committee focused upon the perceived strengths and weaknesses in the current structural fund programme (2006 – 2013), with a view to establishing what could be done to improve outcomes for Scotland in the 2014 – 2020 round.

Co-ordinated approach

Stakeholders were encouraged by the fact that the Scottish Government was engaging proactively with them in planning for the next round of programmes. However, they emphasized that further work needed to be done to ensure a strategic approach for the 2014-20 regulations.

The need to think strategically using a team Scotland approach was highlighted by all stakeholders. Key features of this approach included: (i) greater engagement in the early stages of development of the operational programme; (ii) clarity on the purpose of engagement; and (iii) a clear understanding of who is undertaking particular tasks, sharing of information and an appreciation of which parties would need to deliver against specific objectives.

Stakeholders outlined the work that was already being undertaken to ensure an effective and co-ordinated approach for Scotland, such as the networking of bodies such as Scotland Europa and WOSCOP.

Lack of experience was highlighted as a key factor that could discourage certain organisations from applying, and network organisations had a role to play in addressing the problem. Scotland Europa also stated that it intends to be more proactive in bringing organisations together, identifying opportunities, and assisting organisations to engage. Their initial analysis had indicated that access to a national contact point for a programme tends to lead to greater activity in that area, and so this is an area they intend to work on. UHI had conducted similar work with the Highlands and Island European partnership of local authorities, HIE and UHI, and was also working with a wider stakeholder group of voluntary sector, environmental groups, etc.

WOSCOP proposed that a more comprehensive approach should include those beyond the existing partner organisations and could include elected members such as MSPs who could be involved in ensuring that rules and processes were effective from the start of the process.

WOSEC suggested that there was potentially a greater role for the third sector involvement as projects move towards a small number of large projects which could be frameworked via the strategic delivery body and community planning partnerships – of which good practice examples already existed.

Weaknesses and lessons learned from the previous programme (2000-2013)

Weaknesses

WOSCOP thought the main weakness was the onerous auditing requirements. Significant progress had been made but further work was still required.

Several stakeholders highlighted structural problems with the way in which the programmes had been delivered, namely an overly process driven, administration heavy approach – as opposed to the preferred output driven approach. COSLA suggested that the single outcome agreements already used in Scotland could be utilised, and might be of value to other European countries. COSLA highlighted the need to ensure that the rules and practical implementation arrangements were agreed from the outset and did not change. COSLA also called for further simplification, a view which was echoed by all.

Excessive bureaucracy and paperwork was cited as a major problem in the previous programme. UHI gave an example of a college which had benefited greatly from structural funds - but had been unable to gather the evidence of work having taken place due to lack of resources and because they found the bureaucratic requirements too challenging. WOSEC explained that the real issue was not so much the complexity of application forms and processes, but post-approval compliance. Organisations were required to keep documents for long periods of time and in great detail to fulfil compliance requirements. This often discouraged smaller organisations such as colleges from applying in the first place.

ESEC noted that geographical targeting had been a problem in the recent programme, particularly for specific projects such as renewable energy which could be developed in rural areas but not in an urban setting.

Interpretation of the rules and eligibility was also seen as a frustration. WOSEC explained that various rules could be interpreted differently by different bodies, even different EU organisations (*e.g.* the European Commission and the European Court of Auditors).

Lessons learned

The previous programme brought a radical change in how funds could be spent and in the programme areas in Scotland. Stakeholders reflected that reacting to changes had been a learning curve, but also an opportunity to test different strategic delivery models. The strength of these models was acknowledged, resulting in an evaluation that allowed this experience to inform the 2014-2020 round of funding, with a view to maintaining a more strategic trend.

WOSCOP suggested two approaches to ensure that Scotland was better prepared for the best outcome for the next round of programmes. First was to use any underspend on technical assistance to evaluate previous strengths (particularly where the system had been simplified) so that it could be rolled out more widely. (ESEC suggested that the new JESSICA programme (Joint European Support for Sustainable Investment in City Areas) would be a good example, where Scotland had little experience but could look to the Welsh delivery models. ESEC also thought that such technical assistance would be useful in achieving a more results based approach in outputs.) Second, WOSCOP was of the view that there had been significant underspends in the 2000 – 2013 programme which could be utilised.

WOSCOP was also of the view that there should be greater devolution of fund management, to establish a legacy for Scotland, and to retain the skills for running these programmes in Scotland.

The community planning partnership model was agreed to have been successful. COSLA thought it to be an unique feature not found widely in Europe. WOSCOP stated that it could be refined to reduce the large number of different approaches, especially as some had considerable administrative costs.

WOSCOP highlighted that the process of unit costing had started in the education sector, and considered the instruments used to be good practice models that could be taken further.

Written evidence to the committee highlighted a move from grants to loans in the Commission proposals. Stakeholders thought that Scotland had a good record of practice through both the Scottish Investment Bank and also via local authority loan funds. Scotland Europa highlighted that in a environment where structural funds were shrinking, they would want some money to go into loans so it could be re-used - but that grants were likely to continue in a reduced form.

Priorities for 2014 – 2020 programme

Stakeholders agreed that flexibility and scope for local direction was a priority going forward into the new programme – as some areas such as the Highlands and Islands required a particular mix. This should be balanced with ensuring that there was a mix of activities that best met EU 2020 targets for more sustainable, inclusive and smarter growth.

UHI and STUC highlighted that transition status was very important to allow the Highlands and Islands region to concentrate on its priorities, which could be different to elsewhere.

WOSCOP suggested that a priority for going forward would be to look beyond structural funds to alternative European funding sources as the opportunities were considerable providing capacity was available to pursue them. They gave an example concerning funding for rural broadband which could have been better served using territorial cohesion funding. COSLA called for greater integration between the different programmes such as a single programme that would cover rural, maritime and structural funds. Scotland Europa called for a ‘pan-Scotland’ approach and a joined up ‘Scottish Funding Strategy’ across all EU programmes, particularly to ensure that funding came from the correct source.

European Regional Development Fund (ERDF)

The round table session covered the issue of the European Commission’s plans to establish a single set of common rules governing five funds (the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF)).

The Committee asked stakeholders whether this would be an effective way of improving the impact of the funds by reducing complexity in their application. ESEC thought the reality would be that each of the programmes would develop its own programmes and application forms. Their suggested solution was that stakeholders should team together to share experiences in planning and drafting of programmes to ensure the best result. UHI agreed that increased simplicity was required but that it would be difficult to negotiate this with the European Commission.

European Social Fund

For the European Social Fund, the Commission has identified the following priorities; promoting employment and labour mobility; investing in education, skills and lifelong learning; promoting social inclusion and combating poverty; enhancing institutional capacity and an efficient public administration.

Stakeholders thought that these priorities were likely to be beneficial to Scotland, and were broad enough to be workable and so were largely welcomed - with the caveat that European Commission communications on the detail would be key, as would Scottish input to an upcoming Commission consultation in January 2012. The STUC highlighted that it would be important for Scotland to make its own priorities within the EC’s parameters. The UHI stated that more work was still required to ensure Scotland’s more remote communities had the same opportunities as urban area for access to education and training.

Committee Clerk

Annex G - Summary of discussions on Cohesion Funding from EERC visit to Brussels

Emma Udwin
Member of Cabinet, Commissioner for Regional Policy

- Regional Policy Commissioner Johannes Hahn has declared that EU regional policy must evolve to address the new challenges facing the Union. He has emphasised a number of factors that will feature in the new policy:
  - The policy will be closely linked to the priorities of the Europe 2020 strategy.
  - The money must 'work harder' and will be allocated around key strategic themes ('thematic concentration').
  - The policy will undergo simplification without reinvention and will be built upon experiences from earlier phases of the policy.

- The new policy will be founded on the basis that all regions need funding but that not all regions need the same level of funding, or funding for the same purposes. Three categories of funding are envisaged:
  - *Most developed regions*, where funding is sharply focused upon a limited number of priorities;
  - *An intermediate category,* where there will be greater flexibility; and
  - *Most needful regions*, which will receive the bulk of the funding and the greatest spending flexibility.

- The key priorities are likely to be: (i) innovation; (ii) SMEs; and (iii) energy issues.

- Each of the categories outlined above are expected to have some overlap. The UK's Partnership Contract (which includes a defined regional role) and its National Reform Programme, which were drawn up in compliance with UK law (*i.e.* is cognizant of devolution), will guide the determination of funds. Scotland presently has two particular programmes covering the Highlands & Islands and the Lowlands & Uplands.

- The new programmes will be developed in consultation with local government, NGOs and the Scottish Government as well as the UK Government (*i.e.* multi-level governance), and will be governed by a code of conduct. A role is also envisaged for the Committee of the Regions and the European Economic & Social Committee.

- The Commission will launch a consultation on the Common Strategic Framework in January 2012.

- The new policy will seek to emphasise local involvement, but in doing so will carefully balance the higher cost of administration. Key aspects of localness will be encapsulated in the Rural Development LEADER programme as well as Community Planning Partnerships.

- In terms of large scale infrastructure projects, the bulk of funding will be targeted at the 'most needful' regions. The rational for this is that developed regions will be expected to refine their spending, focusing on '*stimulating growth/competitiveness in a sustainable manner that gives added value'*.

- With regards Scotland, the Highlands & Islands could well qualify for the intermediate category of funding, which would allow for greater flexibility in funding together with a higher co-financing rate, and may allow for a focus on infrastructure projects. The Lowlands & Uplands region would likely qualify as a more developed region. In each instance it is the Scottish Partnerships which will lead.

- New financial instruments are envisaged in addition to JESSICA, JASPAR and JEREMIE, which will allow for greater leverage.

- In terms of implementation of the new policy, it is envisaged that all projects in the current allocation period should be implemented by 2015. There is likely to be an overlap with new projects instituted from 2014 onward. (*NB*, the Scottish Government has already committed its funds from the current allocation).

- Regional funds are already being used to alleviate the impact of the current financial crisis. In the case of Portugal, re-programming has allowed for the current Portuguese funding allocation to be focused upon fewer projects, thereby reducing the national contribution, *i.e.* making the funding more sensitive and the spend smarter.

Annex H - SPICe briefing on EU funding streams

EUROPEAN FUNDING INSTRUMENTS

Background

The European and External Relations Committee has requested information on the different funding instruments available from the European Union budget. On 8 February 2012, the European Commission published papers relating to its proposals for the 2014-2020 Multi-annual Financial Framework (MFF).

One of the Annexes provides a list of legislative proposals adopted by the Commission in the context of the 2014 – 2020 MFF. A list of those proposed instruments which it is likely the United Kingdom may be able to receive funding from is provided below. Against each programme is an indicative budget for the 2014-2020 period which the European Commission's draft multi-annual financial framework has proposed.

List of financial instruments available in the context of the 2014-2020 MFF[73]

<u>Cohesion</u> (total proposed budget of €376 billion)

European Social Fund

European Globalisation Adjustment Fund

EU Programme for Social Change and Innovation

European Grouping of Territorial Cooperation

European Regional Development Fund

European Cohesion Fund

European Agricultural Fund for Rural Development

<u>Agriculture</u> (total proposed budget of €371.7 billion)

Under the Commission's proposals, pillar 1 of the Common Agricultural Policy) constitute €281,825 million of this total and rural development (pillar 2) €89,895 million.

<u>Connecting Europe</u> (total proposed budget of €50 billion of which €10 billion earmarked for transport)

Trans-European Transport Networks

Trans-European Telecommunications Networks

[73] http://ec.europa.eu/budget/reform/commission-proposals-for-the-multiannual-financial-framework-2014-2020/index_en.htm

European Energy Infrastructure priorities

Connecting Europe facility

Health and Consumers

Consumers Programme (€197 million)

Health for Growth Programme (€446 million)

Justice and Home Affairs

Rights and Citizenship Programme (€439 million)

Asylum and Migration Fund (€3.2 billion available for Member States)

Internal Security Fund (€2.1 billion available for Member States on External Borders and Visas and €564 million available for Member States on police cooperation)

Education and Culture

Erasmus for All Programme (€19 billion)

Creative Europe Programme (€1.8 billion)

Research, Innovation and Competitiveness

Horizon 2020 – Framework Programme for Research and Innovation (€80 billion)

Programme for the competitiveness of enterprises and SMEs (COSME) (€2.5 billion)

Strategic Innovation Agenda for the European Institute of Innovation and Technology (EIT) (€2.8 billion)

European Maritime and Fisheries Fund (€6.5 billion)

Life Programme (€3.2 billion)

Citizens

Europe for Citizens Programme (€229 million)

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