CONSULTATION RESPONSE FORM

Question 1 - The table in part 5 provides an overview of the proposals under each of the EU 2020 headings – Smart, Sustainable and Inclusive – matched against the relevant thematic objective and investment priorities. Do you think the investment priorities are the most appropriate ones for the activity suggested?

We are aware of the hard work undertaken by the Shadow Strategic Delivery Bodies over the summer which resulted in the proposed list of 'Strategic Interventions'. The result is better than might be expected given the fact that members of the Shadow SDPs worked to extremely challenging timescales, included divergent stakeholder interests, and the groups (and their sub-groups) worked in isolation of each other before being brought together at one final meeting in September. This is a credit to the strong history of partnership working in Structural Funds in Scotland.

The 'Strategic Interventions' are notably at different stages of development and some clearly need further development to be taken from concept to an operational possibility. Overall, taking account of the wide range of stakeholders involved in this area of work, this must be seen as a good starting point to refine and work up activities.

That said, the attempt to blend the top-down approach set by the EU with its proposals for Cohesion Policy with a pragmatic approach of being led by the availability of match funding for the proposed activities and organisational capacity to engage in ESI funds, was and remains a difficult task.

Intervention logic is lacking

There is an apparent gap between the EU regulations' Investment Priorities' and the 'Strategic Interventions'. The Strategic Interventions outline the type of actions foreseen, whereas there is a need for a stage in-between which outlines the "Strategic Objective". We would be far more comfortable being consulted on "Strategic Objectives" rather than a list of project activities for the entire 2014-2020 period. This is a short-cut to the programmes' development and could lead to less flexibility to change direction throughout the course of the period.

Furthermore, whilst we are aware the Partnership Agreement and Operational Programmes will have more detailed economic-social analysis than that summarised in this consultation document, what has been presented as an evidence base for activities in this document is superficial and makes providing meaningful comment pointless. This is particularly important element to get right as it helps focus the strategy for use of funds based on both opportunity and need – rather than relying on the bottom-up approach of the SDPs which is driven by a mixture of sectorial interests and availability of match-funding.

Targeting

Inevitably with the range of stakeholder interests' in ESI Funds involved in the Shadow SDP process, there are arguably more investment priorities included than funding available to Scotland can comfortably fund.

It is vitally important that these interventions deliver truly additional outcomes and objectives and are not used to substitute national funds in a climate of public sector austerity. Safeguards must be built into the programmes to demonstrate clear additionality and avoid the rejection of Operational Programmes by the Commission or the claw back of grant at a later stage.

The solution, outlined in the consultation document in reference to the Partnership Agreement, is to focus on the 'niche' areas where structural funds can play a role. This is an approach which we entirely support and together with the proposed Smart Specialisation approach should ensure activity focused on a limited priority areas. We would however, welcome more detail on what Scotland's approach to Smart Specialisation really entails. We would like to stress that Smart Specialisation should focus around defined priority sectors but funding for this should not be geographically restricted. Smart Specialisation is an approach to help identify regional strengths in order to make good investment decisions on the use of limited funds and in our view is not about geographical targeting. The East of Scotland is one of the least cohesive 'regions' within Scotland in terms of its economic geography and contains multiple travel to work areas and multiple specialisms. We have concerns that Smart Specialisation may disadvantage smaller geographic areas, with smaller growth poles, in favour of larger areas with concentrated activity. By this we mean for example, Dundee's creative industries specialism around design and gaming should not be overlooked because of the large creative industries sector around media in Glasgow. In a similar vein, the development of Nigg in the Highlands is an important local growth pole for renewables for that region and should not be overlooked because of more concentrated similar activity in the East of Scotland. We therefore recognise the need to address limited budgets and limit priorities but not at the expense of regional approaches within the delivery of the EU's regional policy.

The other part of the solution outlined in the consultation appears to be 'targeting' – potentially geographically and/or in scope of eligible activity. We are far less comfortable with where this could lead. As outlined above, whilst we fully understand the need to target funds, we caution against any approach which limits the way local, regional or national partnerships can deliver ESI Funds by creating different rules in different areas within the partnership. Reporting and monitoring this within a large scale partnership, as proposed, would be operationally untenable by requiring twin-track systems not yet accounted for in the planning of the new IT systems. For those activities which focus on economic and social 'need' rather than 'opportunity' (principally the Local Development and Social Inclusion SDP), the availability and provision of match funding for interventions reflects local needs and should be used, along with qualitative assessment of proposed local activities, to target resources. Targeting (particularly geographic zoning) should not therefore be required in the Partnership Agreement or Operational Programmes. In short, targeting based on an evidence base of needs/opportunities is needed but not at the expense of creating rules written into the Operational Programmes which affect operational delivery as was the case in the 2007-2013 programmes.

We are particularly concerned by suggestions that funding for financial inclusion activity might be geographically targeted as this is an integral employability pipeline activity to help overcome a very common barrier to employment and needs to be accessible to workless individuals regardless of where they live. To remove ESF support for services such as financial inclusion/debt advice and condition management is contrary to both the ethos of a pipeline and contrary to the feedback from the European Commission that we are not doing enough to tackle social exclusion and poverty. Why, on the one hand, create new provision to tackle poverty in response to the feedback from the European Commission, but at the same time, remove direct support in financial inclusion, financial capability and debt management from pipelines? It is well documented that Welfare Reform has increased the demand for, amongst other services, money advice across the country – how does Scottish Government plan to spatially target these services? Upon what basis will such decisions be made?

Flexibility needs built in
We believe that developing Strategic Objectives within the Operational Programmes, in addition to the Strategic Interventions, would build-in much greater flexibility to the programmes than is currently outlined and would provide scope to introduce additional Strategic Interventions if needed in the future. It is important that the final form of words for both our proposed Strategic Objectives and any Strategic Interventions written into the Operational Programmes are flexible enough to be refined throughout the course of the programming period. Seven years is a relatively long period and as we have seen in the last programming period, economic circumstances can change, new challenges can arise and indeed new opportunities. There needs to be some flexibility to respond to changing circumstances. This is an issue which will be even more important in the new programmes given the limitations which will be introduced to the number of revisions that can be sought on the Operational Programmes once approved.

Risk of reducing innovation in projects
One of our long-held concerns about this approach is that it has the potential to fund activities which are less innovative than a competitive challenge fund approach would ordinarily identify. For this reason, we would like to see SDPs holding mini-competitions to identify exciting opportunities for delivering new activities and contracts for delivery reviewed every two-three years. In addition, it may be wise to hold back or ring-fence some ERDF funds from each of the three SDPs specifically for innovative actions.

European Social Fund
We believe the four selected Investment Priorities for ESF are about right in terms of numbers.

It might be interesting to explore the potential scope for the inclusion of "social entrepreneurship" 1b(v) and/or "self-employment, entrepreneurship and business creation" 1a(iii) for the Business Competitiveness Strategic Intervention. Certainly the concept of Social Innovation is not prominent in any of the Strategic Interventions (though is listed an eligible scope under the Innovation ERDF 1b Investment Priority and could be developed as an area there instead).

Also with the South West of Scotland being eligible for the Youth Guarantee Scheme, does that not require the inclusion of 1a(iii) on youth unemployment?

We would like to see descriptions within the ESF Operational Programme on Scottish plans to contribute to the thematic objectives listed under Article 9 of the ESF Regulation. Of particular interest to the East of Scotland is 2a: “supporting the shift towards a low-carbon, economy” which should be linked to the “Low Carbon Infrastructure Transition Development Fund” (currently has no ESF investment priorities) or “Developing Scotland’s Workforce” more explicitly or as a specific work package.

European Regional Development Fund

There are twelve selected Investment Priorities for ERDF (not counting additional ones which may be required for the FEI) and this seems disproportionately large compared to available finances.

However, the identified Investment Priorities are the most appropriate for the activities suggested with the exception of Scotland’s 8th City which would benefit from being covered by ERDF 1b in addition to ERDF 3c.

We are concerned about low carbon activities which potentially will have a mixture of its supply (competitiveness, innovation, circular economy) and demand (infrastructure) side measures across the Strategic Interventions. There may well be a need to look at ways this activity can be monitored in a holistic way. In addition, there may well be opportunities to ensure operational delivery across the Strategic Interventions to achieve integrated holistic delivery of low carbon activities.

Local government in the East of Scotland collaborate on the business support they provide renewable energy businesses in addition to local Business Gateway provision –through East Coast Renewables. That is an example of interests which are spilt across a number of Strategic Interventions but where delivery would make more sense united.

10% Rule

We would like to explore the potential for the use of the 10% rule with the Youth Employment Guarantee Scheme to include Fife and Dundee which are hotspots with problems of youth unemployment.

Financial Engineering Initiative

We would like to know the reason why the preference is not to establish a single priority for the proposed FEI and its associated uplift to the intervention rate. We would also be interested to learn more about the financial inclusion plans as has hitherto not formed part of the SDP discussions. Similarly, is it imagined that digital roll-out will be limited to FEI only?

Question 2 – Section 6 sets out the linkages between Structural, Rural and Fisheries Funds as well as linkages to other EU Funding Programmes. We would welcome stakeholder comments on these linkages in order to help us develop this thinking further

The integration of funding programmes has clearly been difficult at both an EU and Scottish Government level, with differing policy objectives, regulations and IT systems creating barriers.

Whilst recognising the challenges of drafting a Partnership Agreement when the Regulations for these funds (especially the European Maritime and Fisheries Fund) have progressed at a different speed, we are concerned that rural development and fisheries are not as developed within the Partnership Agreement as Structural Funds. This in turn will make it trickier for those Operational Programmes to get approval of the European Commission by not being able to demonstrate as neat a fit with the Scottish chapter of the UK Partnership Agreement.

The realities of operationally delivering across these programmes is something Local Authorities already do with interests in business development (ERDF); employability (ESF); LEADER (EAFRD); fisheries communities (EMFF) and have been highly supportive of better alignment as is not an easy task with current rules. Information on linkages and also delineation between funds and activities is therefore fundamentally important to local government.

Whilst the Scottish proposals offer much improved alignment through the Partnership Agreement and in terms of creating a single PAMC and establishing three thematic SDPs, there is still a risk of this being superficial integration with structural funds operating to the SDP model and rural and fisheries choosing to work to their own structures. As a bare minimum LEADER and Fisheries Communities need to be brought into the fold of the Local Development and Social Inclusion SDP, though our preference would be for the wider Rural and Fisheries Schemes to work within all of the SDPs to maximise linkages and reduce overlaps. The description in the consultation document of how the Schemes will align with the Strategic Interventions is not nearly well developed enough to fully understand how this is going to work.

In addition, there is still much to be worked out in terms of complementarity of funds in certain themes (especially business support, broadband, low carbon and training activities).

However, there is disappointment within ESEC as a result of backtracking over initial plans to establish “one-stop-shops” for some areas which overlap all four funds – notably business support. The rural and fisheries programmes will now maintain their centrally-managed rural and fisheries support schemes and a mixture of ERDF-funded local and national schemes and loan funds being proposed. Existing structures, such as Business Gateway, could be used to direct applicants to the most appropriate support schemes (where resources allow) and should be used as far as possible to provide a form of ‘one-stop-shop’ for business applicants.

The Scottish proposals are not as integrating as local authorities might have hoped for in terms of delivery but the proposals are a step in right direction. We acknowledge that we would need more flexibility in application of the EU regulations governing the funds to allow further proper alignment.

The alignment between delivery structures locally of LEADER LAGs and fisheries communities’ FLAGs is especially welcome and should lead to efficiencies in terms of staff resources in some areas.

The plans for the creation of a single portal for information on wider EU funds is also particularly welcome and will make a massive difference in terms of helping applicants think (and hopefully act) beyond structural funds.

Question 3 - Do you think the new proposals will have a positive or negative impact on the protected characteristics and wider issues of inclusion and participation?

On balance, they should have an overall positive effect, though it is difficult to assess without the Equalities Report referred to.

One area we feel is underplayed is active aging. Like many developed economies, Scotland faces an increasingly ageing population which brings about pressing policy implications. The Finance Committee at the Scottish Parliament held an inquiry last year which identified demographic change and an ageing society as the most significant challenges facing the public finances in Scotland over the coming years. Related to this is the need to increase sustainable economic growth to support this.

We have some concerns about active aging not being part of the Scottish proposals and being solely directed to ETC given the importance of the subject. This should be taken into consideration with the 'Poverty and Social Inclusion' Strategic Intervention but also has implications for 'Developing Scotland's Workforce'. Whilst often thought of as predominantly a rural issue, there could also be scope for the 'Scotland's 8th City' Strategic Intervention to build in aspects of active aging through demonstration or pilots of innovative service provision.

With labour market conditions improving and a range of provision in place to support young people there needs to be careful consideration regarding the focus for structural funds investment and flexibility to adjust this mid-term to reflect changes in underlying labour market conditions and impact on different demographic groups.

Question 4 - If you think there will be a negative impact on the protected characteristics or inclusion and participation please provide suggestions as to what could be done differently to diminish this impact.

See question 3.

Question 5 - Please provide your views for improving the process for design, procurement, delivery, monitoring and evaluation to strengthen delivery of sustainable development.

We do not believe that the Scottish Government has provided nearly enough information for stakeholders within this consultation document to properly answer this question. However, we do have a copy of 'Mainstreaming Environmental Sustainability in EU Funds 2014-2020' the Research Study prepared for Scottish Natural Heritage as ESEC and a number of our members were interviewed as part of the work.

The proposals for mainstreaming Sustainable Development (not to be confused with environmental sustainability which is a sub-set) are centred on developing our approach to:

- Leadership & Commitment
- Design & Delivery
- Monitoring & Evaluation
- Capacity Building

There are currently two approaches to mainstreaming the horizontal themes comprised of:

- Ensuring that <u>all funded projects</u> across all the themes address it as appropriate
- Support for <u>projects specifically designed</u> to achieve positive environmental impacts; for example, in relation to lowering carbon consumption or using natural resources more efficiently. This may include pilot projects to test out new methods or

technologies and to act as exemplars.

Design & Delivery
There is a recommendation that SDP partners and the Challenge Partners involved in the SDPs should be involved in the design of the processes they will use to mainstream horizontal themes. Clearly the approach taken to horizontal theme design depends on the objectives of the project and on the delivery model arrangements. External and internal exerts' advice in design is likely to have stronger profile and can be continuously developed throughout delivery when using a partnership model. Whereas where procurement is used, the scope for involving external experts will be more limited in general and where they are able to be incorporated their role will be limited to the Terms of Reference for the procurement exercise. However, there is scope for insisting on using green public procurement approaches as part of the requirements and this would be a way of mainstreaming an approach prominent on the EU agenda which has not really taken off in Scotland. Similarly where procurement models are used for delivery, community benefit clauses could be used to help mainstream Sustainable Development concepts.

Monitoring & Evaluation
We agree with the assessment that an outcomes approach could lead to better reporting on sustainable development and the equalities horizontal themes. There are a number of additional recommendations in terms of reporting which will increase the burden on Lead Partners in particular but would have a positive role on the visibility of horizontal themes. We remain concerned that there is an expectation that much of the work on collecting information, previously carried out by the IAB, will be passed onto Lead Partners. Despite the aspiration for the use of simplified costs (yet to be developed) this could easily become a burden on partnerships with a large number of organisations involved. On that basis, we would not be comfortable agreeing to additional responsibilities to beneficiaries, without having a fuller understanding of the administrative and compliance regime.

We are less certain that the move to larger 'strategic' projects will improve the practice of tokenism towards the horizontal themes. Larger projects tend to have various 'sub projects' and target groups within them than smaller ones, making it more difficult to identify tangible and meaningful sustainable development outcomes. For example, the business competitiveness and innovation interventions will facilitate a multitude of smaller interventions which directly assist a wide range of economic sectors and SMEs. It may be difficult to accurately assess the impact of these smaller interventions at a full project level in terms of sustainable development. The diversity of activity within larger projects should therefore be taken into account to ensure meaningful consideration of sustainable development principles in interventions.

Capacity Building
We think the idea of establishing shared service involving Sustainable Development (and Equalities) specialists who can be called upon by SDP partner organisations and other Scottish Government funded bodies for advice and technical assistance, and to deliver training (e.g. for auditors and delivery partners) is a good idea. We would recommend that such specialists could be contracted on a retainer by the Managing Authority.

Question 6 – Do you have any further comments on the proposals outlined in this this document?

Partnership working:
There is an assumption within the consultation that all partnerships will be based on

contracting/procurement rather than bottom-up partnerships or delivery in-house. We do not believe that procurement is the only option, though should be an important and well used part of the mix.

Moving to a procured contracting model should enable better targeting of provision, more detailed specification of provision which a grant-based operation does not provide in such a legally sound manner, to achieve better value for money and to improve outcomes. However, there is a need for realism in terms of timetable that procured contracts can be operationalised. Should expected contracts exceed OJ thresholds, as many will, procurement actually needs to have commenced already to ensure political consent and contractors are in place by June. In order to start this process now, we need to have agreed details of geography of the partnership; ways in which the funds will be targeted; outcomes/results for reporting; and have a draft version of the national rules. As many local partners will need to start their 90 day redundancy notices soon this is an area that needs urgent attention.

We acknowledge that experience of procurement within CPP Skills Pipelines during the current programmes has been a mixed success. This is particularly noticeable where single contracts significantly reduced the opportunities for a number of organisations to be involved in the local partnership. We think it is important that procurement is thought of as “partnership contracting” and these contracts serve to reinforce partnership working by specifying services that reinforce pipeline working and interaction between partners at the sharp end of delivery.

To procure employability services across pipeline stages should require a very high degree of partnership as contractors will have to refer clients to each other as they move through the pipeline and will depend upon each other for their required volumes. With the right culture, pipeline model and structure, facilitation from Local Authorities and detailed, well considered specifications, “working in partnership” can be equally as strong, regardless of the purchasing model.

Social Inclusion and Poverty:
We are concerned that there appear to be bi-lateral discussions with the Third Sector the Social Inclusion and Poverty agenda which do not take into account the types of activities Local Authorities are already providing. Local Authorities across the East of Scotland are already working to address ‘community, family and household interventions to prevent social inclusion’ through our service provision. We and our Third Sector partners have been augmenting and developing new provision responding to Welfare Reform, often using funds provided by the Scottish Government. We believe that Local Authorities, through CPPs are ideally placed to work across agencies, and with the local Third Sector, to deliver on this. This fund should be managed through CPPs in a similar way to how Employability Partnerships are run. There is a risk that by not integrating this work with local CPP Employability Pipelines it will result in both duplication and gaps to service provision – much the same way the current employability landscape has been muddied in the current programmes.

Concerns over proposed Lead Partner model:
The definition of Lead Partner responsibilities in paragraph 11 does not provide much illumination from what we already know to be the responsibilities of such a role. There are a number of factors that need to be resolved rather urgently before this role can be considered by identified organisations. This includes: financial allocations; number of outcomes sought, headline agreement on simplified costs methodologies, contracting approaches, and in the case of the Local Development and Social Inclusion SDP – the spatial scale of expected partnership.

We have concerns about the expected scale of projects, particularly in the Local Development and Social Inclusion SDP where up-scaling local partnerships could diverge the span of control for the lead partner, potentially doubling the amount of financial transactions that need to take place. We do not believe up-scaling CPP Employability pipelines will contribute to the simplification agenda from a local authority perspective would simply add an additional layer of bureaucracy between the local authority and the Scottish Government. An additional layer of bureaucracy will complicate not simplify structural funds. The only beneficiary in terms of simplification will be the Managing Authority. Scottish Government has stated a commitment to the Simplification Agenda – however this must fully embrace new ways of working that will simplify funds for the beneficiaries and free up their time to achieve better results and focus on delivery rather than administration. Developing a Lead CPP layer will change nothing for delivery agents – but will add an additional layer of bureaucracy which can only further delay the payment of claims.

Technical Assistance:
We would welcome clarity about whether Technical Assistance will be offered to Lead Partners to take on the management and compliance roles previously undertaken by the IAB.

Governance arrangements:
The consultation document mentioned that the governance arrangements for the SDP and PAMC are not settled yet the PAMC has already met for the first time albeit in shadow format prior to the consultation close. There needs to be better transparency and a clear rationale around membership choice.

There are no details within the consultation in relation to future decision-making structures for ‘applications’ for stakeholders to provide views. When will stakeholders be consulted on this?

Financial Responsibilities:
We would like to see the financial responsibilities workflow developed for different types of delivery models and where two payment methodologies are combined (e.g. simplified costs and defrayed expenditure) within the same partnership. This should outline the relationship expected between the Lead Partner and its First Level Controller as well as between the wider partnership and their First Level Controllers to the Managing Authority.

We would like more details on plans to incorporate E-cohesion and what that will mean for those delivering structural funds.

Timetable:
As outlined throughout our response we are concerned about the timetable for developing the new programmes is not allowing enough time for certain considerations and that shortcuts are being taken in order to stay on track. We would rather that more time is spent getting the right programmes – building in flexibility – than achieving an early launch which compromised quality and left certain elements like National Rules unfinished. Unlike previous programmes, the new programmes involve a much greater degree of pre-planning activity and ties stakeholders in for a longer period of time. As such, this is a far greater challenge and if extra time is needed it should be taken to ensure the programmes are fit for purpose.

Transparency:
We believe the draft Partnership Agreement and Operational Programmes should have been

made available for this consultation to effectively allow stakeholders to comment on the plans. Not being able to see the details on the plans has made responding to this consultation challenging and makes it harder to ensure stakeholder buy-in.

We welcome the establishment of the Future Funds blog to allow people not directly involved in the programmes development to keep abreast of main issues but it is a pity is not updated more frequently.

We therefore want to ensure that there is greater transparency and communication going forward on the programmes' development.

Presentation of consultation:
We appreciate the desire to undertake public consultation quickly given the substantial delays to the programmes' development. The Scottish Government Good Practice Guide indicates that it should *"allow consultees at least 12 weeks to respond, except in very exceptional circumstances".* This would mean the deadline should have been the 6 March 2014 based on when it was issued. This 6 week consultation has been effectively a 3 week consultation in our offices due to the Christmas holidays, which is barely enough to consult with officer members of ESEC. As a result this response is submitted without political approval as it does not fit into our decision-making timetable.

Furthermore, and more fundamentally, we do not believe that a layman would be able to contribute to the consultation based on its content. The Investment Priorities from the ERDF and ESF regulations should have been appended as a matter of courtesy to those who may have an interest in the future of structural funds but may not have known or realised where to find the final agreed EU regulations. In addition, the section on the proposals for horizontal themes was badly phrased and did not explain the plans. To answer that question, we had to look up the final SNH report we have as we were part of the Steering Group looking at Sustainable Development as a horizontal theme. Such presentation is poor and not in keeping with the inclusive nature of public consultation.