

BALANCE OF COMPETENCES REVIEW SCOTTISH GOVERNMENT RESPONSE

EU BUDGET

1. The Scottish Government welcomes the opportunity to contribute to this call for evidence. This response sets out the key areas where the Scottish Government wishes to make a contribution to the debate, whilst at the same time recognising that the Budget is an area of almost exclusive competence on the part of the European Commission. Accordingly, the limitations on the UK Government's ability to seek change in this topic are recognised. The response also recognises the constraints that are placed on the Scottish Government's position on these matters as a consequence of the current constitutional arrangements in the UK. Accordingly, the views expressed are set within the context of those existing arrangements.

Role of Institutions and Budget System

2. The Scottish Government strongly supports the rationale for an EU-wide budget and recognises the benefits that it brings to Scotland's citizens and institutions, in particular its role in enhancing economic growth, creating opportunity, investing in research and development, protecting the environment and addressing market failure, inequality and deprivation. It supports the concept of a single European market and trading block, is a necessary instrument in the elimination of trade distortion, and, by targeting resources towards developing economies, creates balance across Member States and new markets for the sale of goods and services. In tandem, it supports the harmonisation of standards across the EU, fosters a strong partnership philosophy amongst Member States and highlights the importance of developing and linking infrastructure to enhance opportunity and economic development.

3. The Scottish Government recognises and respects the relationship that exists between Member State Parliaments and the European Parliament, the separate roles of the Council and Commission and how those manifest themselves in the procedures that eventually result in an agreed budget. Whilst there is no desire to see significant change in the roles that the different institutions play, it is, however, important that the timescales associated with agreeing the budget recognise that there is a consequent effect on individual programmes and their associated regulations. **The timetable must therefore respect the interdependencies and allow sufficient flexibility** in the event that the Council cannot agree the budget in its preferred timeframe.

4. In regards to the overall negotiation process between Member States and the Commission, the Scottish Government would wish to see a greater role for regions within Member States in influencing both the overall level of the budget, the priorities set within it and the distribution over its term. At present, there is no formal mechanism to achieve that on the budget overall. There are discussions between UK Ministers and those in Devolved Administrations but those largely extend to influencing, rather than genuine negotiation centred on the priorities that are

prevalent in different parts of the UK. For example, geography, natural resources and the extent of the development of the economy are all critical factors in determining investment priorities and these can vary markedly across the UK so **it is important that a more systematic approach is developed to ensure that Devolved Administrations can play a greater role in the UK's overall negotiating position** with other Member States.

5. Similarly, the Scottish Government would wish to see a **greater role for Devolved Administrations in the negotiating process for the resulting methodologies employed in the allocation of the CAP, Structural Funds and EMFF programmes across the UK as a whole**, in particular how funding associated with features either uniquely or predominantly associated with a particular Devolved Administration can be handled in an equitable fashion.

6. The Scottish Government is broadly content that the seven-year cycle for the budget is what is required in order to provide for long-term planning of the delivery of programmes as it balances the risk that economic circumstances may change markedly over the period of the budget with the administrative effort that is required in order to develop the support systems and processes necessary for the delivery of those programmes. Many of the programmes delivered by EU funding, whether those that pass directly through governments' hands or make their way directly to institutions through competitive funding, deliver complex, multi-partner projects that are delivered over a number of years. It is therefore important that those recipients can plan on the basis that there will be certainty of funding. **Any risk of a substantial refocusing of priorities at EU level, mid-budget, therefore has the potential to create uncertainty** and may pose a risk to co-investment and the delivery of priorities.

7. The Scottish Government is disappointed that the UK Government continues to assert its intentions to impose a charge on DEL expenditure, by way of a reduction in budget, in the event that Devolved Administrations secure additional EU income as a consequence of EU budget outcomes (as set out at paragraph 4.58 et seq. of HM Treasury's 2013-14 Consolidated Budgeting Guidance). This acts as a disincentive to access funding for the benefit of Scotland's citizens and institutions, in particular since the taxation arrangements from which the bulk of the UK's contributions to the UK budget are drawn affect UK taxpayers as a whole. **Accordingly, the Scottish Government would wish to see the UK Government review its position** to ensure that opportunities are not lost or other priorities penalised as a consequence.

8. It is critical that there is a robust, but proportionate, approach to the sound financial management of the budget's resources when distributed through the various spending programmes. The following areas merit consideration:

- There is an expectation of a low error rate, with materiality set at 2%. **This can prove challenging for programme participants to achieve against the backdrop of the complexity** of the arrangements for individual programmes.
- Structural Funds programmes involve a regime where verification and compliance checks are carried out on beneficiaries by the Managing Authority and Audit Authority, potentially supplemented by checks by the EC Programme

(Director General) auditors and the European Council of Auditors. This can result in four tiers of auditing of evidence, a particular challenge for projects that span a number of years. **This approach can result in additional disruption to beneficiaries**, especially when there are multiple site visits involved.

- In some Member States a common control regime operates across the Structural Funds programmes. DG auditors have made moves to improve co-ordination but there is scope for further improvement, in particular, **changes could be made in co-ordinating DG Auditor missions to Managing and Audit Authorities or enabling one regime to carry out work on behalf of the other(s)**. The consequences of the current arrangements are that smaller administrations with common authorities can be subject to a disproportionate number of missions.
- There can, on occasion, be some **differences in the interpretation of the regulations and national procedures between the various auditors** (e.g. around sampling methodologies and procurement test checks). In addition these can be changes in focus or emphasis by auditors. Both have scope to cause difficulties in Member States so should, if at all possible, be avoided.
- There is a heavy reliance on verification and compliance work, based on the sampling of projects for on-site inspection. Statistical sampling is applied to each population tested and significant numbers of inspections result, especially where there are multiple programmes and/or declarations/drawdowns. Significant detailed testing is required for each inspection, which is particularly resource-intensive in large projects, where significant sub-sampling may be required. **Administration could be reduced through greater focus on a risk-based approach to sampling**, as would the avoidance of large-scale testing in projects that have been previously visited, where the control regime and typical error rate is already known.
- The **balance between process and intent/outcomes needs to be sufficiently weighted so that pragmatism prevails** (for example, in the absence of minor documentary evidence) to avoid unreasonable expectations on beneficiaries. Failure to adopt such an approach can result in significant penalties or corrections that may be disproportionate to the issue in hand.
- Whilst communications between the EC and audit authorities continues to improve, there is scope for closer working to better deal with the resourcing pressures that are placed on Member States as a consequence of EU programmes. The **role of the EC's auditors around providing advice is also worthy of review** to examine the appropriateness of advice-giving in the context of independent audit, in order to deal with avoidable irregularities.

9. All of this points to an examination of the extent to which a more systematic risk-based approach to auditing and the building of better informal relations between Member States and EC auditors can be built upon to increase compliance levels and reduce administrative bureaucracy.

General Value of Spend

10. The overall level of the budget must recognise the following imperatives:

- **There is a need to invest, in particular in infrastructure**, to create a platform for economic growth, not only within Member States but between Member States, around infrastructure investment that will improve economic co-operation and growth.
- **The budget must take account of the prevailing economic circumstances** across Member States and consequently recognise that in times of restraint, growth in the budget will be more challenging and consequently prioritisation becomes of even greater importance.
- The Commission itself should reflect the reform that has and continues to take place across Member State governments and so **must be both economic and efficient in its own administration** and in the setting of regulations and procedures for programmes.

11. No specific comments are offered on the overall headings – the Scottish Government recognises that the current headings are priorities for all Member States to a greater or lesser extent and that achieving a balance of the available budget across those headings requires careful negotiation. As has been highlighted earlier in this paper, a more systematic approach to agreeing overall priorities and distribution of the eventual budget would be welcomed. **This could be facilitated by earlier exploration of priorities and the high-level procedures/regulations likely to be adopted for programmes between the Commission and Member States both during the lifetime of the budget and more particularly as planning begins for the next budget round.**

12. Flexibility in the budget is important, both within headings and between because priorities and the way that beneficiaries wish to deliver projects does not always align itself neatly with existing headings. **Greater flexibility to align funding from individual headings and programmes towards priorities in Member States can, however, be frustrated by differing approaches to regulations and the way in which audit activity is organised** – this is particularly true of CAP – so scope to better align those activities would be a welcome improvement.

Resource System

13. The Scottish Government offers no significant comment on the current system of raising resources for the EU budget. **There are likely to be significant costs associated with moving to an alternative system**, particularly one involving direct taxation of citizens and this is not deemed to be a priority area for investigation as there are many other issues highlighted around the allocation of resources and the delivery of programmes that are of greater priority.

Conclusion

14. There are a number of significant issues raised in this document that are likely to have resonance within a number of UK Government Departments, as well as other Devolved Administrations. The Scottish Government welcomes the opportunity to explore these further in the next stages of the Balance of Competences review.

The Scottish Government
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