FINAL

WEST OF SCOTLAND EUROPEAN FORUM

GOVERNMENT REVIEW OF THE BALANCE OF COMPETENCES BETWEEN THE UNITED KINGDOM AND THE EUROPEAN UNION

COHESION POLICY

Response by West of Scotland European Forum

INTRODUCTION:

The West of Scotland European Forum (WOSEF) brings together the 12 local authorities in the region together with a number of other key agencies involved in economic and social regeneration, including the local Colleges' Partnership, the regional transport partnership and some significant third sector organisations.

The Forum's membership has extensive and long standing experience of the structural funds both as project promoters and as members of the various decision making structures that have been set up to prepare, manage and evaluate structural fund programmes covering the region over the past 25 years.

CONSULTATION QUESTIONS – COHESION POLICY

1. How effective in your view have the structural funds been in addressing the tasks given to them under the various Treaties and what might be done to improve this?

One of the problems associated with the effectiveness of structural funds in recent years has been "mission creep". For example ERDF is being increasing perceived as being a means of enabling all regions to maximise their economic potential, consistent with the EU 2020 strategy for smart, sustainable and inclusive growth. While many would agree with this approach it is not actually the fundamental purpose of the structural funds which is, according to the treaty

"In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions." (Article 174) and;

"The European Regional Development Fund is intended to help to redress the main regional imbalances in the Union through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions." (Article 176).

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In summary the structural and cohesion funds would achieve greater effectiveness if there was a "return to first principles".

2. To what extent have UK places, companies and workers benefited or not benefited from EU structural funds?

The Forum would draw the attention of the UK Government to the Annual Implementation Reports which UK managing authorities submit to the Commission in terms of the 2007-13 programmes. Although these are process dominated they do contain a large volume of information on numbers of firms assisted, people progressing along employment pipelines etc.

3. Are the types of activity covered by the structural funds and the other funds outlined in this paper more appropriately funded at EU, national or regional/local level? Should all Member States or regions receive structural funds in future? If not, what should be the criterion?

This question is not dissimilar to the issues raised by the UK Government's 2003 publication "A Modern Regional Policy for the United Kingdom". The main proposal made in this document was for responsibility for regional economic development in richer Member States of the EU to be "repatriated".

Now, as then, the key issue to consider is what would be put in place if the UK were no longer to receive EU structural funds. Simply leaving existing instruments and levels of funding unchanged would be unlikely to have the capacity to achieve the UK Government's objective of rebalancing the UK economy.

A particular strength of EU Cohesion policy that was identified at that time and remains relevant today is the continuity that the multi annual (7 year) approach under which EU Cohesion policy operates. This contrasts with the current UK approach to public sector finances which at best operates on a 3 year cycle and, in many cases, still is dominated by "annuallity".

Outwith the "mainstream" structural fund programmes there is a distinct and valuable niche for Territorial Cooperation programmes, although the underlying intervention logic how this is structured at EU level needs to be fundamentally reviewed. More work also should be done in capturing and capitalising the results of these programmes.

4. What is the right balance between strategic guidance at EU level, Member States management and control of the funds and regional or local identification of needs?

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In the 2007-13 period the requirement for Lisbon "earmarking" of resources, particularly ERDF, to a limited list of activities was an overly prescriptive approach which in some cases stifled the relevance of programmes to local regeneration needs.

The risk is that the need to focus resources on a limited number of Investment Priorities within the 11 Thematic Objectives set out at EU level in Article 9 of the Common Provisions Regulation (1303/2013) will result in a similar situation applying in the 2014-20 period.

The Forum understands the desirability on some level of guidance at EU level but in fact what is now in place is not guidance but legislative obligation. In addition the approaches in both the 2007-13 and 2014-20 programming period as summarised above reflect a preoccupation with inputs rather than outputs and impacts.

The particular disadvantage of this prescriptive approach is that it does not correspond with the reality of differing economic regeneration needs. (see answer to question 5 for further details)

5. Do all parts of cohesion policy provide equal value for money? Are different approaches required for different funds and different geographies?

A "one size fits all" approach will certainly not provide value for money so clearly differing approaches are required. The economic geography of the UK is complicated and the Forum recognises that even in better off regions there may be pockets of economic disadvantage that merit intervention by both national and EU funds.

By way of example there are still many parts of the "more developed" (in EU terminology) regions of the UK where the need for place based investment in infrastructure is vital for the long term sustainability of the local economy. This is not to argue for a wholesale return in the UK to EU funding being allocated to major transport and environmental networks, but instead to highlight the need for capital investment in locally identified strategic locations, including the provision of the necessary connectivity (both physical and ICT)

6 To what extent should the funds be targeted at less developed areas and disadvantaged groups of society rather than being available as sources of investment for economic development across all areas?

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As indicated in the response to question 4, the focus of structural funds should revert more explicitly to tackling regional economic disparities and addressing labour market inequalities.

While it is quite reasonable for the majority of funds to be allocated to the poorest Member States there is still a good case to be made for less prosperous parts of "more developed" Member States to benefit from EU structural funds.

However the designation for the highest levels of cohesion policy support (and also national schemes of regional aid) by reference to one indicator (per capita GDP) at one spatial level (NUTS 2) has always been something of a blunt instrument that has often produced anomalies (due to factors such as commuting and retirement patterns). A better range of socio-economic statistics at a smaller spatial level, would, if achieved, allow scarce EU resources to be better targeted at those territories whose socio-economic needs are greatest. The key indicators are likely to include labour market participation, levels of income, educational attainment, and business stocks.

The Forum understands that neither the Commission nor the UK government would probably want to revert to the ward based designation that characterised EU structural interventions between 1989 and 2006. This did lead to some rigidities and did not readily adapt to the shift in emphasis of EU support from capital to revenue based projects that took place over that time.

Nevertheless the Forum considers that EU structural funds will not realise their full potential unless their interventions are sufficiently concentrated and achieve a critical mass. Making structural funds available across all areas dilutes the value added of the policy.

7. How effective in your view is accountability and financial management of the funds outlined in the paper? What further steps if any might be taken to provide increased assurance for EU taxpayers?

The best assurance that EU taxpayers would obtain would be if the programmes set and met challenging but realistic targets on what the programmes should achieve in terms of results.

The experience in the West of Scotland is that multiple levels of audit and control can actually be counter productive in terms of using resources efficiently (see response to question 9 for further elaboration).

8. What are the main barriers to accessing EU funds? What might be done to overcome these?

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The main barriers to accessing and using structural funds effectively have been:

- Difficulties in securing match funding;
- Elongated decision making processes; and
- Onerous compliance requirements (see response to question 9);

9. What practical steps could be taken to reduce the administrative burdens in getting funding from EU programmes?

A degree of trust between on the one hand EU instructions and managing/audit authorities and regional and local delivery bodies on the other needs to be put in place and a systems based approach to audit and compliance should be taken.

This "smarter" approach to audit would focus on major, high risk elements of expenditure. Repeated checks of items such as public sector payroll are wasteful of resources especially since the risk of error is marginal. Many of the audit related problems that emerge with projects supported by the structural funds relate to interpretation of regulations and national rules. One of the most frustrating aspects of working with structural funds is changes in interpretation as to what costs are or are not eligible that are applied retrospectively. The Forum appreciates that there is no easy way to eliminate this problem completely but this can be minimised if guidance (including COCOF notes on general themes) is publicly available at an early stage. Managing authorities too have an important part to play – they should work jointly with partners at an early stage in the programming process to develop national rules that are readily understood, minimise ambiguity and are robust enough to work in an operational context.

The Forum supports the efforts in preparing the legislation for the 2014-2020 programmes for simplification but notes that this has been a recurring, non fulfilled objective of previous funding phases.

As the European Court of Auditors indicates in its opinion on the initial Commission proposals (OJEU C47 of 17th February 2012):

"The arrangements for Cohesion spending are complex. There are six layers of rules (common provisions, general provisions, Fund-specific provisions, delegated acts, implementing acts, Commission's guidelines). National legislation will, in some cases, constitute an additional layer. The Court notes the positive efforts to reduce beneficiaries' administrative burden (for example, through the increased use of lump sums and standard costs). However, the burden for the EU and national administrations remains high, and will even possibly become higher than is currently the case.

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Despite the claimed focus on results, the scheme remains fundamentally input-based, and therefore oriented towards compliance rather than performance."

10. How can the local or regional dimension best be reflected in EU policy-making?

Essentially this could be achieved by the proper implementation of the partnership principle. This needs to be respected at all stages in the programming process going from preparation through to implementation, monitoring and evaluation. Many of the defects of the 2007-2013 programmes in Scotland stem from the very limited application of the partnership principle, particularly at the early stages of the process - a case of "plan in haste – repent at leisure".

Managing authorities should be compelled to demonstrate that stakeholders have actually been **involved** in the design of the programmes, rather than just being **consulted**. This is essential to secure the desired "buy in" to the strategy and priorities contained in the programmes. This level of engagement needs to be maintained throughout the programming period: Monitoring Committees and the individuals serving on them need to be presented with proper performance information and have the capacity to make real decision rather than just acting as a rubber stamp" for the Managing Authority's proposals.

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