

CONSULTATION RESPONSE FORM

This is a joint response from the Highlands and Islands European Partnership (HIEP), which includes Highlands and Islands Enterprise, the seven local authorities from the region, and the University of the Highlands and Islands. The Partnership welcomes the opportunity to feed in its views and would like to acknowledge the Government's efforts over the past months to engage with Scottish Partners over the future European and Structural Investment Funds programmes. We are committed to continuing to engage with Government to shape the future programmes and delivery mechanisms to ensure the best possible outcome for Scotland and our region's benefit. Our collective view is as follows:

Question 1 – Are there other areas you think the Partnership Agreement should address?

The Partnership Agreement should also make specific reference to the **Transition Area status** which has been secured for the Highlands & Islands and set out the specific arrangements to ensure alignment of strategies at regional, national, and European levels. HIEP will continue to contribute their activities to support the Government Economic Strategy (GES), and by extension to the EU 2020 Strategy. The Highlands and Islands has a major role in delivering GES through its opportunities in growth sectors, particularly marine renewable energy, life sciences, food and drink, and the creative industries. In order to capitalise on our strengths and fully develop our potential for Scotland's and Europe's benefit, there needs to be recognition of the particular development challenges in the Highlands and Islands which are not present in the rest of Scotland. These include sparsity of population (11 inhabitants km², compared to 127 inhabitants km²), mountainous terrain, over 90 inhabited islands and a peripheral location to the north west extremity of the Union. We would like to point out that **Article 174 of the EU Treaty** calls for special attention for our type of areas, and that there is therefore a legal base for specific treatment of the Highlands and Islands.

In order for the Highlands and Islands to make a full contribution to the Scottish economy, we would like to emphasise firstly that transition funding should be identified and ring-fenced for the Highlands and Islands with a total envelope and a breakdown by European Structural and Investment Fund and secondly, that we should have the **possibility to use higher co-financing rates** as foreseen by the Common Provisions Regulation in Articles 110 and 111 and there should also be higher match funding from the Government. Thirdly, there should be separate, more flexible, priorities to address the development opportunities of our area.

The Partnership position is to seek **separate programmes for the Highlands and Islands**. There is also a need to explore a range of delivery options. The Partnership Agreement should therefore mention all models of delivery (ITI, JAP, CLLD) to ensure that all options remain available. The details of the various models remain unclear in the proposed Scottish approach and further development work is required. It is essential that no restrictions are made at this stage. The Partnership would like

to explore with the Scottish Government the possibility of using these models, potentially **an ITI**, to take forward our opportunities and address the region's particular development challenges.

Governance arrangements will also need to take account of the separate reporting of activity, outputs and spend associated with Transition Regions.

HIEP also calls for sufficient flexibility in the Partnership Agreement to allow for changing and unforeseen circumstances. The ability to adapt to changing circumstances, both in terms of interventions and delivery mechanisms is one of the key lessons learned from previous Structural Funds programmes. This does not, of course, preclude a clear and consistent approach to audit and compliance.

The Partnership Agreement should also specify how the different ESI Funds and programmes – such as the rural development and the fisheries programmes will be aligned in an integrated approach. It should also mention Scotland's approach to Smart Specialisation and the relationship with the ESI Funds. Clarity is also needed on how EU programmes, such as Horizon 2020, COSME, and the future INTERREG, will fit and align to the multi-funded integrated approach.

Given the important role they play in tackling regional economic disparities within Scotland, it would also be appropriate to refer to the changes in regional aid regulations from 2014-20.

Question 2 – Do you think these thematic objectives will best address Scotland's short-term and long-term challenges?

The Partnership supports the thematic objectives proposed, as they are well aligned with Scottish and EU2020 priorities and address the socio-economic development opportunities and needs of the Highlands and Islands that can be addressed via the European Structural and Investment Funds.

Success will however depend on the definition of the specific investment priorities within each of the themes.

We stress the need to make specific provisions in the Partnership Agreement to focus on the development opportunities of the Highlands and Islands and make sure these can be supported using the most appropriate delivery model(s) (see question 1).

The region's Transition status calls for separate priorities, separate delivery mechanisms, and a separate reporting system (as set out in Article 87 of the Common Provisions regulation) that will best address its short-term and long-term development opportunities and challenges and, as a consequence make sure that its full potential is developed and contribute to the delivery of the Scottish Government Economic Strategy and EU 2020 strategy.

Question 3 – Do you think there are any other thematic objectives which should be addressed?

Green and sustainable Transport should be added to the list of priorities since Improved Connectivity – Transport & Communications is an agreed political priority by Highlands and Islands' elected members, in particular in view of its role in promoting economic development, low carbon and resource efficiency (by developing transport links that are comparatively energy efficient) and tackling social inclusion and accessibility to employment, vocational training and services in remote, peripheral and geographically challenged regions such as the Highlands and Islands.

The Partnership would also like to see infrastructure, where it is directly related to economic activity, remain as an eligible activity.

Question 4 – Do you think the Scottish Themed Funds will address Scotland's key challenges?

The Themed Funds are broad enough to address the key opportunities and challenges of the Highlands and Islands.

Success however depends on what is delivered, by whom and in what manner. The nature, scale and method of intervention will need to reflect local needs and circumstances - one size cannot fit all. A mix of national, regional and locally delivered interventions would be sensible. In order to make headway, it is essential to be clear on which of the activities are to be delivered at national, regional or local levels and where spatial targeting will apply. There needs amongst other things to be cross reference between the proposed three Scottish Themed Funds and details need to be provided on the mechanism that will link them to the Operational Programmes of the ESI Funds.

HIEP encourages the Scottish Government to continue to work closely with the regional stakeholders, who have a long history of successfully delivering EU Structural Funds in the area, to enhance opportunities and address the key, distinctive challenges of the Highlands and Islands. This is all the more important as the Government is highlighting the need to identify match funding in advance.

The Partnership recognises that the ESI Funds cannot alone meet Scotland's challenges as the available amounts are relatively modest. They provide additional, and valuable long-term funding to assist the long-term economic development of the area. We welcome therefore the strategic focus on these themes. We stress however that linkages and aligning of activities with other funds that can all work together to develop the region's opportunities and address its challenges should be made - EU and national, as well as private sector investment.

HIEP supports the use of financial engineering for large projects provided provisions are made to accommodate the specific conditions and requirements in the Highlands and Islands.

Question 5 – How do you think the governance and delivery arrangements will impact on your sector?

The involvement of all the key organisations in the proposed Delivery Partnerships is warmly welcomed by HIEP. However, much remains to be clarified concerning the Delivery Partnerships, and there needs to be a clear steer to prospective partners in terms of roles and responsibilities, obligations and liabilities, and likely resources.

Local Authorities in particular are concerned by the expectation that local government will identify match funding in advance, which may cause issues for long-term planning and provision of project funding.

The Partnership is also concerned by the proposed requirement that Lead Partners and Delivery Agents assume legal and financial responsibility for delegated monies. This could have major implications for pro-active engagement of local government in the future delivery of the Structural fund programmes.

There is much to commend an evolutionary rather than revolutionary approach, building on existing mechanisms such as Community Planning Partnerships, LEADER, Business Gateway or the recently launched Youth Employment Scotland programme. More details on the legal implications as well as the simplified cost options are needed, and it would be helpful if the degree of overlap that currently exists between the themes could be cleared up.

HIEP partners will explore these issues through the Shadow Delivery Partnerships. It is however noted that the Shadow Delivery Partnerships are meeting before this consultation closes. It is important that the results of this consultation are considered and if appropriate, adopted by these groups.

Given the Transition region status of the Highlands and Islands and the consequent ring fenced budget and need for separate financial/outcome reporting, a clearly defined governance and delivery structure for the region should be put in place. This should be through separate Highlands and Islands Programmes.

The role of the Partnership Agreement Monitoring Committee also requires clarification. There are also concerns about the ability of one PAMC to meet the level of scrutiny, transparency and accountability arrangements that partners would expect. This is a potential problem that may well be exacerbated by infrequent meetings. (It would be helpful to return to the previous practice of programme reports and other key papers being made available online.)

Question 6 – How do you think the governance and delivery arrangements will impact on your organisation?

HIEP partners look forward to engaging with Government regarding the future delivery of the ESI Funds programmes. There are however concerns that the proposed delivery structures may be too remote and centralised. There is a danger that the move to nationwide programming could dilute scrutiny, transparency and accountability leading to a sense of disengagement.

Partners feel that there will be little Highlands and Islands representation on the nationwide delivery partnership, raising concerns about the ability of the Highlands

and Islands stakeholders to have meaningful input into the decision making process and to address specific issues and challenges of the area.

Strategic Delivery Partnerships which have met before the consultation closes, probably need to change over time for the successful implement of the programmes.

The relationship between the Delivery Partnerships and the Delivery Agents is crucial – quality projects and outcomes will only be achieved if there is co-operation on programme/project development and access to match funding. At a time when public sector budgets are constrained, the issue of 'up front' match funding may prove problematic due to a lack of sufficient resources.

Question 7 – Are there any unidentified governance or delivery arrangements that could aid simplification of the future programmes and ensure that the Structural Funds complement each other?

HIEP is currently delivering a Scottish Government promoted Technical Assistance Lessons Learned project, to provide helpful comments regarding future delivery. Project outcomes will be fed back to Government, but to date the project has identified the need for the following:

- a fully developed, tested and operational administration system (i.e. Eurosyst) to be in place prior to the launch of the operational programme;
- operational programmes and project guidance to be tested and in place prior to the launch of operational programmes;
- national Rules (for all ESI programmes) to be developed, road tested and approved by the European Commission prior to programme launch;
- for the process of approval of the National Rules above by the Commission to be used to determine for the lifetime of the ESI Funds programmes the monitoring, evaluation and audit requirements and;
- guidelines for unit cost methodologies acceptable to national Managing Authority and the European Commission and national and European audit bodies to be in place before the start of any programme.

Question 8 – What other delivery options do you think would be feasible for delivering youth employment initiatives?

The Highlands and Islands will not be eligible for the Youth Employment initiative as it has a youth unemployment rate below the 25% threshold. However, support for youth employment is vitally important for the region to reverse the continuing problems of out migration of young people (there is a "missing generation" of around 19,000 people in the 15-34 age group, as young people have moved away from the Highlands and Islands for work and education). The region now has its own university, and improved access to learning at all levels combined with the creation of employment opportunities will be instrumental in attracting and retaining young people in the Highlands and Islands.

Supporting youth employment initiatives is the role of a number of different organisations. CPPs, enterprise agencies, SDS and the third sector are all involved, working with businesses, academia and individuals. An integrated approach is required to maximise effectiveness. While the third sector is likely to have a role, activities and delivery arrangements must take account of agreed priorities and existing delivery structures. We should not prejudge the role of any delivery partner prior to SDP discussions, and flexibility to tailor delivery options to suit local needs is required.

The Scottish Government is increasingly reliant on the Highlands and Islands that has much to contribute to the delivery of the Government Economic Strategy as our region is a key player in the priority sectors mentioned at Q1. It is therefore crucial to provide the area's young people with the necessary training and skills opportunities that are required to grow these key sectors.

Question 9 – What other measures could be taken to reduce the audit and control pressures?

We see the need from the outset to establish a clear set of eligibility criteria and comprehensive guidance as to operational matters and audit requirements, so that all parties are clear as to their obligations in whatever role they have in programmes – between the Commission, the Managing Authority, Delivery Partners and Delivery Agents.

We would welcome clarity and a consistency of approach from the launch of ESI programmes and for the lifetime of programmes with regard to the following:

- application form completion and information required
- standardised application
- form to assist “hiding the wiring” for applicants and for programme administrators
- data to be collected to facilitate claim and project reporting
- cost eligibility and non-eligibility and evidence required to prove defrayment – clarification required at the outset on exactly what is needed/required
- audit requirements and compliance;
- procurement rules, and
- national Rules.

There is in addition a need to apply the learning from evaluation evidence and lessons learnt from current and previous programmes. Experience to date of simplified unit costs is encouraging. There is a substantial body of evaluation work being carried out on this and other topics at a Scottish, UK and European level. The results of these evaluations need to be taken on board when setting up the compliance regime for 2014-2020 programmes.

We would welcome a discussion with the Government and further clarity on the various unit cost models that could be used.

A more outcome-based approach, with greater use of procuring/contracting key programme activities would allow resources to be concentrated on what projects achieve rather than a focus on financial reporting.

Question 10 – Do you have any further comments on the proposals?

The possibility of **an ITI** for the Highlands and Islands should be considered. This would take into account the separate reporting requirements for the Transition Package as well as the need to address specificities of the region.

We welcome the proposal to establish “shadow” Strategic Delivery Partnerships to identify strategic interventions that will make the most difference. However we should recognise that each theme may require a different approach. For example, local development which is largely “bottom up” will include a wider range of different interventions, reflecting local circumstances.

HIEP acknowledges that these are still consultation proposals but there are a number of issues on which it is difficult to comment as further clarity is required. In particular, we would welcome clarity on:

- the precise scope of eligible activities proposed by the three Scottish Thematic Funds;
- how EU Fund integration and integration of activity will be delivered;
- the composition of the Programme Monitoring Committee either at a pan Scottish or Highlands and Islands level;
- how duplication of funding activity will be avoided;
- the funding available for the transition region within each theme and how the funds will be delivered, governed and administered as a separate entity from the funding regime for the rest of Scotland. Following the UK agreement of structural funds allocation, resulting in a 5% reduction for Scotland compared with the current programme, we would expect this cut to be applied proportionally across the whole of Scotland;
- the proposed role and operation of the Programme Monitoring Committee beyond that set out in the regulations;
- the role, remit and composition of the proposed Delivery Partnerships;
- the relationship between Delivery Partnerships and Delivery Agents;
- the scope for differing delivery models within the Delivery Partnership/Agent relationship;
- the regional perspective and how regional differences in development opportunities, delivery models and mechanisms can be accommodated. This has implications for governance and delivery arrangements; and
- how the ESI Funds programmes will be aligned with the SRDP, fisheries programme, and with EU programmes such as INTERREG, Horizon 2020, and COSME.