

12<sup>th</sup> February 2014

Agenda Item	16
Report No	PED 18/14

**AXIS 4 EUROPEAN FISHERIES FUND – HIGHLAND FLAG PROGRESS AND INTERNAL AUDIT REVIEW**

**Report by Director of Planning and Development**

**SUMMARY**

This paper provides an update on the delivery of the Axis 4 European Fisheries Fund (EFF) in the Highlands. Committee is invited to consider the report and to:

- (a) note the good progress being made on the delivery of the EFF Axis 4 Fund in Highland, the additional funding awarded and the extended timeframe for commitment under the current Programme; and
- (b) note that appropriate action is being taken to address the conclusion and recommendations of the recent Internal Audit Report

**1. Introduction and background**

- 1.1 Axis 4 of the European Fisheries Fund (EFF) can be used to support a wide range of projects which contribute to the sustainable development and improvement of the quality of life in fisheries dependent areas. Projects which add value to fisheries products, provide training or economic diversification are all potentially eligible.
- 1.2 The deadline for commitment under the Axis 4 Programme was originally the end of December 2013. However, during October 2013, Marine Scotland advised that the new European Maritime and Fisheries Fund 2014–2020 (EMFF) is likely to be delayed as progress in finalising the Regulation at the EU has been slower than originally envisaged. Marine Scotland has therefore extended the initial period for Axis 4 commitments to 30<sup>th</sup> June 2014. Decisions on any further extension will be taken in line with progress on the EMFF.
- 1.3 Consequently, Marine Scotland invited Fisheries Local Action Groups (FLAGs) to apply for additional funds under EFF. Highland Council on behalf of the Highland FLAG submitted an Expression of Interest in October 2013 requesting additional funds.
- 1.4 Following consideration of the submission from the Highland FLAG, Marine Scotland has allocated an additional £124,228 to fund eligible projects in Highland with public co-finance of £41,409 to be provided or sourced by the Council (25% public co-finance requirement).
- 1.5 Highland Council is the lead partner responsible for the delivery of the EFF in Highland, including financial management, and the Council has committed to providing the public match funding required to deliver EFF. This means that of the total EFF Axis 4 budget of £715,029 in Highland, 25% match funding of £178,757 must be provided or sourced by the local authority. Funds required to match EFF funds are currently planned within the Planning and Development Service budget

2012/13 - 2015/16. However it is anticipated that a number of new applications will include match funding from other public sector bodies and this will reduce the level of Highland Council match funding required.

## **2. Highland Fisheries Local Action Group**

- 2.1 A Highland Fisheries Local Action Group (FLAG), chaired by Highland Council's Vice Chair of Planning Environment and Development, delivers the Axis 4 fund on behalf of the European Commission and the Scottish Government. The Highland FLAG must be representative of fishing communities and should contain at least 30% representatives from the fisheries sector. The current membership of the Highland FLAG is included for information at Appendix 1 to this report.

## **3. The Highland Local Fisheries Development Strategy and Business Plan**

- 3.1 Copies of the Highland Local Fisheries Development Strategy and Business Plan are available on the Committee bulletin for Members who wish to go through the details of the plans.
- 3.2 The Highland FLAG recently reviewed the Strategy and Business Plan and noted that good progress is being made in terms of the range of measures which completed projects will meet, along with progress towards the targets identified in the Highland FLAG Business Plan.
- 3.3 An evaluation of the impact of Axis 4 in the Highland area during the current programme period will be undertaken shortly.
- 3.4 Linked to the above evaluation, Marine Scotland has indicated that planning/preparation by the FLAGs for the new EMFF Programme should now be underway. Representatives of the Highland FLAG and HC Officers have requested a meeting with Marine Scotland to seek guidance on what is required and whether any financial assistance will be available to contribute towards the development of a new Strategy and Business Plan.
- 3.5 Following guidance from Marine Scotland, the Highland FLAG will meet to review what has been achieved under the current Axis 4 programme and to identify priorities for the new programme. The new Strategy and Business Plan will be developed in consultation with the FLAG, fishing communities and the fishing industry.

## **4. Highland FLAG progress**

- 4.1 The Highland FLAG has met eight times since its establishment. In addition, the FLAG has been able to consider projects and expressions of interest electronically.
- 4.2 42 expressions of interest have been considered by the FLAG to date. A number of additional enquiries have also been received by Programme staff which do not meet the requirements of the Programme i.e. eligibility, procurement, match funding requirements. Projects which would fit more appropriately under Axes 1-3 of the European Fisheries Fund have been signposted to Marine Scotland.
- 4.3 Thirteen full applications have been considered by the Highland FLAG and eleven have been approved. A brief summary of each project is provided in Appendix 2 while financial details are included at Appendix 3.

- 4.4 Axis 4 projects must be completed by the end of April 2015, with the final date for drawdown of approved funds being May 2015.
- 4.5 The Highland FLAG has approved funding of £433,294.64 to date against the available projects budget of £643,526.10 (total budget of EFF funding and co-finance minus 10% for admin).
- 4.6 The FLAG has until 30<sup>th</sup> June 2014 to commit the remaining balance of £198,642.50 (75% EFF £148,981.87) and is currently inviting further expressions of interest.
- 4.7 There are also a number of expressions of interest and projects in the pipeline and the Council is liaising with applicants to develop applications for consideration by the FLAG. The next round of applications will be considered by the FLAG on 5<sup>th</sup> March 2014 with a further meeting scheduled for 16<sup>th</sup> May.

## **5. Request to Finance, Housing & Resources Committee**

- 5.1 On 22<sup>nd</sup> January Finance, Housing & Resources Committee approved a request to use Council balances of £300,000 to support EFF applicants cash flow their projects and overcome the issues associated with advances and retention applied to the Highland EFF Axis 4 Programme. This facility will help ensure that larger projects, like the one being run by the Kyle and Lochalsh Community Trust, are deliverable.
- 5.2 It is proposed that the Council's Finance Service will manage the fund and assess proposals from applicants seeking a temporary loan. This approach is equivalent to the Loan Scheme that is in place for LEADER applicants (revolving fund of £500,000).

## **6. Internal Audit**

- 6.1 During Q3 of 2013/14, Highland Council's Internal Audit assessed the administration of EFF Axis 4 for the period 01/07/12 to 30/06/13. The final report is available on the Committee bulletin and the action plan is attached at Appendix 4.
- 6.2 The Audit concluded that the Programme is assessing project eligibility correctly; however, the procedures and processes need to be better documented, to provide control and assurance that projects will continue to be processed correctly, particularly as claims and any problems arise as the projects progress.
- 6.3 The Internal Audit report contains six recommendations. All are classed medium priority and those the Council leads on have been completed by the end of January 2014. Clarification on some points is awaited from the Scottish Government.

## **7. Fit with the Programme for the Highland Council 2012 - 2017**

- 7.1 Managing and implementing the Highland EFF assists the Council deliver its objectives to maximise the benefits of EU funding programmes in the Highlands.

## **8. Fit with the Single Outcome Agreement**

- 8.1 Managing and implementing the Highland EFF helps the Council deliver SOA objectives supporting:
  - Empowering communities;

- Tackling inequalities;
- Access to amenities;
- Enjoying and protecting our natural environment

## **9. Legal and equality implications**

9.1 There are no legal or equality implications directly arising from this report. As part of the assessment process, each project is assessed for its impact on equal opportunities.

## **10. Risk Implications**

10.1 The P&D Service, together with the Highland EFF team, will continue to work closely with Internal Audit and Marine Scotland to ensure the Programme is delivered in accordance with the governing European and Scottish Regulations and that there is no disallowance of grant.

## **11. Climate change and Carbon Clever implications**

11.1 There are no climate change or carbon clever implications attached to this report. Those attending FLAG meetings use car share opportunities and projects are assessed for their sustainability including their potential impact on the environment.

### **RECOMMENDATION**

Committee is invited to consider the report and to:

- (a) note the good progress being made on the delivery of the EFF Axis 4 Fund in Highland, the additional funding awarded and the extended timeframe for commitment under the current Programme and the allocation of additional funds; and
- (b) note that appropriate action is being taken to address the conclusion and recommendations of the Internal Audit Report.

Designation: Director of Planning and Development

Date: 13th January 2014

Authors: Fiona Daschofsky, EFF Development Officer (Ext 2542)

## Planning, Environment and Development Committee

### EFF Axis 4 Fund – Highland FLAG Progress

#### Membership of Highland Fisheries Local Action Group

<b>Cllr George Farlow</b>	Vice Chair Planning Environment and Development Committee
<b>Cllr Richard Greene</b>	Chair North West Inshore Fisheries Group
<b>Mr John Cox</b>	Chair Moray Firth Inshore Fisheries Group
<b>Mr John MacMillan</b>	Mallaig Harbour Authority
<b>Mr Willie Calder Snr</b>	Chair Scrabster Harbour Authority and Scrabster Seafoods Ltd
<b>Mr Jamie Smith</b>	Scottish Salmon Producers Organisation
<b>Ms Kathryn Logan</b>	Moray Firth Partnership
<b>Ms Tamara Lawton</b>	Scottish Natural Heritage
<b>Ms Jacqueline McDonell</b>	Highlands and Islands Enterprise
<b>Mr Scott Armstrong</b>	Visit Scotland

#### Supported by Highland Council:

Fiona Daschofsky	EFF FLAG Development Officer
Sarah Lamb	EFF Regional Development Officer
Patrick O'Sullivan	EFF FLAG Administrator
James Bromham	Aquaculture Development Officer

### Highland EFF Axis 4 Programme – Progress to date

- Funds awarded to the **Moray Firth Partnership** supporting a feasibility study on a proposed seafood trail project. The project links with a similar national initiative which is being funded by other Scottish FLAGs and which could lead to a co-operation project covering three FLAG areas (Highland, Moray and Aberdeenshire).
- Funds awarded to **Highland Council Harbours** supporting an engineering survey/feasibility study to establish opportunities for the enhancement of Helmsdale Harbour via the provision of access at all tides and its further development for leisure use.
- Funds awarded to **Assynt Leisure – Sports, Youth and Learning Centre** supporting a two year project to provide training, mentoring and support to individuals and businesses in Assynt. The project aims to encourage new entrants into the marine sector and to support the fisheries community to develop new enterprises and to expand existing businesses.
- Funds awarded to **Wick Harbour Authority** for the purchase of additional infrastructure to increase the capacity at Wick Marina from 72 to 84 berths. Interpretation panels will also be installed in the area around the harbour to promote the maritime heritage of Wick and provide information on the port's diversification process to meet modern demand. A series of interpretation panels will also provide information about the local wildlife and coastal walks.
- Highland Council's Community Challenge Fund recently approved an application from Kyle and Lochalsh Community Trust to take on responsibility for the toilets and pontoons in Kyle. The Highland FLAG has awarded funding to **Kyle and Lochalsh Community Trust** to support the upgrade and extension of the pontoons (7 berth to a 20/22 berth installation); make additional provision for tour boats; install 10 moorings in the adjacent area; and to redevelop the existing public toilets to provide facilities for visiting yachts, providing showers, washing facilities and washing machines/dryers.
- Funds awarded to **Mallaig Harbour Authority** to enhance shore side harbour facilities for local residents and visitors alike, and to improve the public perception of the village of Mallaig as a visitor destination, by construction of a new promenade along the south side of the Inner Harbour. A new walkway will link existing pavements from the village centre to the marina area whilst providing seating and viewpoint areas. Interpretative panels will display information on the harbour development and fishing heritage of Mallaig.
- Funds awarded to **Applecross Historical Society** towards the interpretation of culture and heritage aspects of fisheries communities of the Applecross peninsula. The society aims to capture, at a crucial demographic juncture, the disappearing knowledge of the older fishing community members. Funding will support a series of community engagement activities to record, save and share fishing and marine traditions through oral histories, video and audio slideshows and small publications.
- Funds awarded to **Staffin Community Trust** to carry out feasibility studies to consider the social and economic development potential of Staffin Slipway and its surrounding area. An output of the project will be a Development Plan which will enable the applicant and project partners to move forward in appointing a Design Team and securing funding for the proposed development. The Trust has been in discussion with potential business partners with a view to improve infrastructure to support fisheries and tourism sectors and to extend tourism value to fisheries areas.

### Highland EFF Axis 4 Programme – Progress to date

- Funds awarded to **Lybster Heritage Trust** to preserve and display a replica of the fishing yawl 'The Spirit of Lybster' which operated from Lybster in the 19<sup>th</sup> Century when Lybster Harbour was one of Scotland's main herring fishing harbours.
- Funds awarded to **Gairloch and District Heritage Company** to digitise Gairloch's Heritage Museum's collection of fishing related objects and archival material and record oral history interviews relating to the fishing industry in Gairloch.
- Funds awarded to **Mackay Underwater Technology Ltd** to purchase and put into use an air compressor as a provision for both leisure and fishing industry scuba divers as part of a promotion of Caithness as a leisure diving location. As part of the project, Mackay Underwater Technology intend to register with the British Sub-Aqua Club as a dive "Resort Centre" which will establish the centre on a national and international scale.

## EFF Axis 4 Fund - Highland FLAG Progress

<b>Highland FLAG Budget</b>	<b>EFF</b>	<b>HC</b>
£715,029* split:	£ 536,272.00	£ 178,757.00
Less 10% for Admin Budget: £71,502.90 split:	£ 53,627.18	£ 17,875.73
Budget available for projects: <b>£643,526.10</b> split:	<b>£ 482,644.83</b>	<b>£ 160,881.28</b>

\* Original allocation from MS £412,044. Additional EFF funds of £124,228 allocated in November 2013

## Projects Approved

Applicant	Total Project Costs	Funding sought from FLAG	FLAG % towards total project costs	EFF	HC	Other Public Sector Funds	Notes
Moray Firth Partnership	£ 4,445.00	£ 3,545.00	80%	£ 2,658.75	£ 886.25		
Highland Council (Helmsdale Harbour Project)	£ 16,980.00	£ 12,735.00	0.75%	£ 12,735.00		£ 4,245.00	(HC Harbours)
Assynt Leisure	£ 39,309.00	£ 29,481.75	75%	£ 22,111.31	£ 7,370.44		
Wick Harbour Authority	£ 33,443.00	£ 30,098.70	90%	£ 25,082.25	£ 5,016.45		
Kyle & Lochalsh Community Trust	£ 258,894.00	£ 233,004.60	90%	£ 174,753.45	£ 58,251.15		
Mallaig Harbour Authority	£118,471 (eligible costs)	£ 82,470.00	70%	£ 61,852.50	£ 20,617.50		
Applecross Historical Society	£ 34,095.46	£ 21,571.59	75%	£ 19,178.69	£ 2,392.90	£ 4,000.00	BnaG
Staffin Community Trust	£ 22,800.00	£ 11,400.00	50%	£ 8,550.00	£ 2,850.00		
Gairloch and District Heritage Company	£ 2,004.00	£ 1,354.00	68%	£ 1,015.50	£ 338.50		
Lybster Heritage Trust	£ 11,551.72	£ 6,534.00	57%	£ 4,900.50	£ 1,633.50		
Mackay Underwater Technology	£ 2,200.00	£ 1,100.00	50%	£ 825.00	£ 275.00		
<b>Funding approved</b>		<b>£ 433,294.64</b>		<b>£ 333,662.95</b>	<b>£ 99,631.69</b>	<b>£ 8,245.00</b>	

## Outstanding Balance

EFF funds (75% of budget)	£ 148,981.87
Co-finance (25% of budget)	£ 49,660.62
<b>Total</b>	<b>£ 198,642.50</b>



#### 4. ACTION PLAN

The Action Plan contains 6 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	6
Minor issues that are not critical but managers should address.	Low	0
<b>Total recommendations</b>		<b>6</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.1	Medium	Non-compliance with SLA  The following issues have not been documented in the Highland Council procedures:  (1) Procedures to both prevent and detect fraud.	Procedural Issues:  (1) Procedures should be updated to include fraud detection and prevention and breaches of contractual obligations. Also, the annual progress report should include reference to the general fraud prevention and detection measures.  (2) Document retention requirements should be added to the procedures.  (3) A link to the Council's code of conduct and Financial Regulations training should be added to comply with SLA gifts and hospitality rules and a reference should be made in the procedures to section 11	(1) Procedures to be updated. Reference to fraud prevention and detection measures to be included in Annual Progress Report.  (2) Procedures to be updated.  (3) Procedures to be updated.	EFF Development Officer	20/12/13
		(2) Retention of project files.			EFF Development Officer	20/12/13
		(3) Rules on acceptance of gifts and hospitality and the Bribery Act 2010.			EFF Development Officer	20/12/13

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		(4) Marine Scotland confirmation of Highland Council procedures could not be established.	(4) Following the changes to procedures recommended in this report, approval from Marine Scotland of the Highland procedures should be sought.	(4) Procedures to be sent to Marine Scotland for approval.	EFF Development Officer	20/12/13
		(5) Adequate separation of duties and internal supervisory checks have not been documented.	(5) The process for paying claims should be included in the procedures ensuring that they provide for adequate separation of duties and internal supervisory checking. The supervisory controls should be agreed with Marine Scotland.	(5) Supervisory controls to be clarified and agreed with Marine Scotland. Procedures to be updated accordingly.	EFF Development Officer	20/12/13
		(6) SLA performance targets have not been documented.	(6) The SLA Annex B performance requirements should be included in the procedures.	(6) Procedures to be updated.	EFF Development Officer	20/12/13
		(7) Administrative checks have not been documented or agreed with Marine Scotland.	(7) The administrative controls should be agreed with Marine Scotland and documented in the procedures.	(7) Administrative controls to be clarified and agreed with Marine Scotland and procedures updated accordingly.	EFF Development Officer	20/12/13
		The following compliance issues had not been carried out or documented: (8) No lockable file storage.	Compliance Issues: (8) Lockable storage should be arranged.	(8) Lockable storage now in place. Action complete.		Complete

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		(9) A data sharing protocol has not been set up.	(9) The Highland Council should follow-up the request made to Marine Scotland for a data sharing protocol. If no response is received this should be escalated to the Director of Planning & Development.	(9) Follow-up request to be made to Marine Scotland regarding Data Sharing Protocol.	EFF Development Officer/Head of Environment & Development.  If relevant, escalate to Director of Planning & Development.	20/12/13
3.1.2	Medium	(1) The publicity guidance does not comply with EU regulations.	(1) The publicity information should be amended to comply with the EU regulations.	(1) Publicity requirements to be clarified with Marine Scotland. It should be noted that a letter from Highland Council to Marine Scotland dated 27/05/13 queried whether there are specific requirements in terms of publicity as the regulation only refers to the Member State.	EFF Development Officer	20/12/13
		(2) The procedures do not comply with EU regulations on audit trail requirements.	(2) The procedures should include details of audit trail requirements.	(2) Procedures to be updated.	EFF Development Officer	20/12/13
3.1.3	Medium	The quorum requirements for approval of projects at meetings are unclear.	(1) The rules on meeting quorum should be agreed with Marine Scotland.  (2) Once the rules are known, the attendance mix of members	(1) To be clarified with Marine Scotland and procedures updated accordingly.  (2) Files/minutes to be reviewed once quorum is	EFF Development Officer  EFF Development Officer	20/12/13  20/12/13

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION		
					RESPONSIBLE OFFICER	TARGET DATE	
3.2.1	Medium	The emails sent to Marine Scotland with the documents required by the SLA following project approval were not held on file for 3 projects.	The emails sent to Marine Scotland following project approval should be added to the individual project files in order that this information is retained to evidence eligibility.	The emails should be checked for each meeting approving projects to ensure it was quorate.	Actioned. Emails now added to project files.	EFF Development Officer	Completed
3.2.2	Medium	The information held on the Highland Council (Helmsdale Harbour) Project to declare that the project was not a statutory obligation of the Local Authority could be improved by stating the harbour improvements being investigated by the appraisal is not a statutory duty or responsibility.	The Harbours Manager should be asked to provide further confirmation in writing that the harbour upgrade is not a statutory obligation. This confirmation should then be retained in the project file.	clarified with Marine Scotland.	Letter to be requested from Harbours Manager and added to file.	EFF Development Officer	20/12/13
3.2.3	Medium	The following minor issues were found during the review of the project files:  (1) The Highland Council (Helmsdale Harbour) Project file does not contain the feasibility proposal and quote from a rejected application, which is required to better explain the requested funding in the application accepted.  (2) Facsimile signatures have been used on forms instead of wet signatures. Facsimile signatures alone are not a controlled method of authorising	(1) The feasibility proposal and quote from a rejected application should be added to the Highland Council (Helmsdale Harbour) Project file.  (2) Where facsimile signatures are used to sign forms that are emailed, the original email file and a printed copy of the email should be held.	Actioned. Feasibility proposal and quote added to HEFF/003.	Actioned. Printed cover email added to files and emails retained.	EFF Development Officer	Completed

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>documents. The e-mail these forms were attached to should be held electronically, and a printed copy held on file, to show authorisation.</p> <p>(3) The project file's dividers were not numbered or titled.</p> <p>(4) All forms (including the project recommendation form) need the name of the authoriser printed to ensure it is clear who is authorising the forms, and all forms (including the compliance with conditions form) need a title.</p>	<p>(3) All the project files' dividers should be numbered or entitled.</p> <p>(4) Forms should contain the printed name of the signatory. All forms require a title.</p>	<p>(3) File Structure index at front of file. Dividers to be numbered.</p> <p>(4) Printed names section to be added to templates. Titles to be added to all forms. Printed names detailed on forms already completed and signed. Action Complete.</p>	<p>Programme Administrator</p> <p>EFF Development Officer</p> <p>EFF Development Officer</p>	<p>20/12/13</p> <p>20/12/13</p> <p>Complete</p>