

THE HIGHLAND COUNCIL
PLANNING, DEVELOPMENT AND INFRASTRUCTURE
COMMITTEE

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**THE COUNCIL'S ENGAGEMENT WITH THE EUROPEAN UNION:
ANNUAL REPORT 2013/14**

Report by the Director of Development & Infrastructure

Summary

This report provides a summary of the activity undertaken by the Council since April 2013 in delivering on its commitment to maximise the benefits to the Highlands from Europe. The annual report looks back at European funding acquired from the current programme, programme management, consultation responses submitted and the Council's involvement in EU networks. It also provides an update on the latest position in the development of the European Regional Development and Social Funds in the Highlands & Islands 2014 to 2020.

1 Introduction

1.1 The Council's Programme, Working Together for the Highlands has a commitment that:

“We will work through the Highlands and Islands European Partnership and the Scottish and UK Governments to secure the maximum benefit for the Highlands from the European funding programmes for 2014-20, including transitional funding, and participate actively in key European organisations.”

1.2 In support of this the Council engages with the European Union (EU) in order to:

- maximise grant funding for Highland communities, directly as an applicant and indirectly by supporting Council funded and community projects;
- influence E.U. policy and programmes, highlighting the particular opportunities and needs of the region; and
- learn from experience in Europe and to share Council experience for improving public services.

1.3 The Council's current priorities for engaging with the E.U. are:

- Cross Cutting priorities: Securing regional and rural development funding post 2013. To encourage EU support for community development and sustainable communities.

- Equality of access to services in rural and remote areas of the Highlands: Seeking EU support for communications infrastructure, transport and assets.
- Supporting sectors of the economy: Seeking EU support for renewable energy and small business development.
- Tackling poverty, supporting people into work and inclusion: Seeking EU support for mitigating against the impact of the recession and assisting those requiring most support to access and sustain employment.
- Management of the Environment: Seeking EU support for climate change in terms of carbon reduction and adapting to deal with adverse weather events. To influence policy including the Common Agricultural Policy (CAP), Less Favoured Area Status (LFA), access to the countryside and Maritime Policy.

2 Funding Activity in 2013/14

2.1 The 2007-2013 Highlands & Islands Regional Development and Social Programmes closed to new applications at the end of 2013. Both Programmes were over-committed at the end of 2012 and as such there were no formal application rounds in 2013. The Scottish Government, as Managing Authority in conjunction with regional partners including the Council, have spent the past eighteen months managing programme closure. This has included monitoring of project expenditure to assess:

- the level of underspend and capacity of this to reduce the levels of over-commitment, and
- the potential to fund additional activity either by extending existing projects or funding what are termed “shovel ready” projects.

2.2 The projected return of monies to the ERDF Programme allowed the Council to secure additional funding for its Business Gateway Plus programme (£34,000), and for new business starter units in Inverness (£600,000). In addition claims to the value of £1,032,289.06 were submitted during 2013 and up to April 2014. These comprised £778,932.44 across nine ESF projects and £253,356.62 across four ERDF projects.

2.3 An overview of the total EU funds that have accrued to the Highlands (and not just the Council) is not currently available but will be presented to Members when the Council is in possession of the final expenditure figures. This is unlikely to be available before the middle of 2015.

3 Management of E.U. Programmes

3.1 The Council manages the LEADER Programme 2007-13. As 2013/14 was effectively the final year of the Programme considerable project activity took place and financial claims were processed. Over the year 142 projects claimed funds resulting in grant payments of £4.33m; of this amount £473,740 was paid towards 13 Highland Council projects. The Programme is now coming to a close with only 5 projects remaining active, and grant of

£248k to be claimed.

- 3.2 The European team also prepares information for audits conducted by the EU and the Scottish Government on Council applications. Since the last report, four project audits have taken place. One related to the Thing Project (Northern Periphery Programme), Portree/Staffin project (ERDF) and the Create and Employ and Activity Agreements projects (ESF). Three of the projects with claims totalling £1,114,577.84 received confirmation of 'No further action required'.
- 3.3 The ESF funded Activity Agreements project had ineligible expenditure identified relating to a charge for the provision of training. Of £476,229 claimed, £1,045 was deemed ineligible. This will be deducted from a future claim.
- 3.4 The Council manages and match funds the Axis 4 European Fisheries Fund 2007-13, which is now drawing to a close. Since opening the Fund has invested in 13 community, harbour and interpretive projects at a level of £467.6K. One project pending approval could see total investment of £481.4K.

4 Responses to EU Consultations

4.1 European Structural Funds 2014-2020 Programmes – May 2013

The Scottish Government carried out a consultation on the Scottish chapter of the UK Partnership Agreement. This is the strategic agreement between the United Kingdom and the EU on the priorities and means of delivery of the EU regional funds in the UK. The consultation focussed on the thematic objectives for the future programmes and on delivery. It was known at the time that the thematic objectives would not change and that there was a paucity of detail on delivery to make responding meaningful. However, the exercise did provide an opportunity for the Council to raise a range of issues that were of concern at the time, namely:

- integration of funding across the programmes;
- how differing development opportunities in the Highlands could be accommodated in pan Scotland programmes;
- differing delivery models;
- costing methodology;
- legal and financial responsibility to be borne by project sponsors;
- audit regimes;
- the IT system that will be used to manage the programmes; and
- national rules which govern eligibility of expenditure.

4.2 European Structural Funds 2014-2020 Programmes - January 2014

The Scottish Government consulted on the following issues surrounding the development of the regional programmes:

- alignment of the proposed activities to the proposed programme priorities;
- linkages between the Funds;
- possible impact of the Funds on Equal Opportunity indicators; and
- procurement and monitoring.

The consultation avoided the issues of primary concern to stakeholders regarding what will be funded, how activity will be delivered and the implications of organisations acting as lead bodies in overseeing the delivery of large scale projects. This was frustrating but these issues have subsequently been included in debate with the Government and will be mentioned in the following section.

4.3 Common Agricultural Policy (CAP)

During 2013 the Scottish Government also consulted on the Scottish Rural Development Programme (SRDP) 2014-2020. Stage 1 and Stage 2 consultations took place during the summer and autumn of 2013 respectively. Stage 1 focused on the general principles of the SRDP and on the broad objectives of the Programme, while Stage 2 focused on the detail of the 2014-2020 Programme. Stage 2 sought views on:

- SRDP budget proposals including the LEADER portion;
- integration with other EU funds;
- rural priorities;
- proposed schemes;
- delivery mechanisms;
- Programme timetable; and
- transitional regulation from the 2007/2013 – 2014/2020 schemes.

The Highland Council responded comprehensively in February this year.

4.4 A further Scottish Government CAP consultation sought views on proposals for the future of Direct Payments to the agricultural sector in Scotland from 2015. The subject of a Member workshop, the Highland Council response was submitted in March 2014.

4.5 All CAP related submissions are available in full if required.

5 E.U. Funding Programmes in the Highlands & Islands 2014-20

5.1 A report on the regional funds (ERDF and ESF), or the European Structural Investment Funds (ESI) as they are known, was presented to full Council on 13 June. This report is summarised below.

5.2 The Highland Council, at both political and officer level, as part of the Highlands & Islands European Partnership (HIEP), has been working with the Scottish Government during 2013/14 to ensure that the interests of the region are taken on board in the development and delivery of the ESI funds 2014-20. €192M has been ring fenced to the Highlands & Islands as a Transition region for the 2014-20 funding period. This work has secured a written assurance from the Deputy First Minister that the Government had no problem in accepting the principles proposed by HIEP that the programmes would:

- reflect regional circumstances;
- be developed and delivered locally;
- allow funding allocation through a regional decision making body; and
- be delivered by a regional body with clear reporting lines to the Joint Programme Monitoring Committee.

In summary the region has direct influence over the €192M Transition funds in deciding how it is spent and what it is spent on.

5.3 These principles are being met by the Government via:

- instructions from Government to the lead bodies of each of the Strategic Interventions (SI's) to engage with the Highlands & Islands to ensure that the circumstances of the region are reflected in the SI's. The European Funds will be delivered via Operational Programmes which will be based around a suite of 12 Strategic Interventions which will comprise packages of activity;
- regular meetings between the Government and the Highlands & Islands at both officer and political levels;
- the establishment of a Highlands & Islands Territorial Committee to oversee and monitor the delivery of the Highlands & Islands Transition Funds. The role and remit of this Committee and how it will interact with the other Committees is currently the subject of debate with Government. However, the Committee will decide on the activities to be funded and the allocation of the Transition funds;
- the creation of a working group to agree the principles that will underpin the delivery of activity by local Councils; and
- work with stakeholders to define costing methodologies which will be structured to reflect differences in population and geography.

5.4 The regular, almost weekly, informal meetings with the Scottish Government have meant that the Highlands & Islands have had access to the day to day development of the Operational Programmes which will guide the delivery of the EU funds 2014-20. It should be noted that this has not been made available to other regions in Scotland, to any sector of the economy, or to the Programme Monitoring Committee which will be charged with implementing the Operational Programmes.

5.5 The Operational Programmes were submitted to the European Commission on 8 July and it hoped that the programmes documents will be approved by October. The submission of the programme documents to Brussels will allow the focus of work to shift to:

- the legal and financial implications of organisations accepting EU funds to act as lead bodies in the delivery of activity;
- national rules which will govern eligibility of activity;
- costing methodologies;
- audit regimes and levels of control;
- governance structures; and
- the IT system, which will be used to record and monitor activity.

Again, the Council will be involved in the work on the above matters.

5.6 As reported to Members at Committee in May 2014, work has commenced on the new Highland LEADER Programme 2014-2020 and the preparation of its Local Development Strategy (LDS) and Business Plan. Consultation with local stakeholders will be integral to this work – not only to learn what worked/did not work in the last Programme but to understand and identify Highland-wide and local priorities for the next Programme. The first stage of this work is complete, with preliminary engagement meetings taking place across Highland (22 events involving 187 people), and work is underway to prepare the draft LDS and Business Plan before a second phase of consultation is undertaken in September. The Highland LEADER Local Action Group/Highland Community Planning Partnership will then approve the LDS and Business Plan and submit to the Scottish Government in October 2014.

6 Benefits to the Council

6.1 The extent to which the Council could gain financially from the 2014-20 ESI funds cannot be quantified at this time. A number of the Strategic Interventions remain to be fully explained and as such the activities that will be supported remains unclear. However the Council could benefit from funds delivered via the following Interventions:

- business competitiveness - support for business development and Business Gateway activities;
- enhanced employability pipelines - employability services;
- green infrastructure - path network in Inverness;
- low carbon transport - active and green travel hubs;
- low carbon infrastructure;
- resource efficiency;
- Scotland's 8th City; and
- social inclusion and poverty - addressing barriers to employability, child care provision, financial advice.

6.2 Work is ongoing to understand the details of all the Strategic Interventions so that the Council has a better understanding of where monies can be drawn down to fund Council priorities.

7 Other Networking Activity

7.1 In seeking to influence future European policy for the benefit of the Highlands, the Council is represented in EU networks by Members and officers as follows:

- The Leader of the Council is the UK representative on the ruling Political Bureau of the Conference of Peripheral and Maritime Regions (CPMR). The Leader was elected as vice President at the 2013 General assembly. The CPMR remains the pre-eminent lobbying network for regional government;
- The Deputy Leader is the alternate Scottish member on the Executive Committee of the North Sea Commission (NSC), a lobbying and experience exchange network for regional government bordering the North Sea;
- The Convener was formally confirmed Chair of the North Sea Commission's Energy & Climate Change Thematic Working Group in March 2014;
- Councillor George Farlow has continued in his role as Board Member of Euromontana, a network of organisations with an interest in the development of mountain regions;
- The Principal European Officer continues to provide Secretariat support for the UK members of the CPMR; and
- The Council's Principal European Officer has represented Scotland on the committee tasked with the development of the 2014-20 Northern Periphery & Arctic Programme. This programme, formerly known as the Northern Periphery Programme, will now cover the Russian territory around Archangelsk and the North Western Canadian province.

7.2 It is recommended that the Council retains membership of the:

- Conference of Peripheral and Maritime Regions (CPMR), as it remains the pre-eminent lobbying organisation for local and regional Government in the European Union. It is consistently used by the European Commission to gain the views of the regions on future developments and the CPMR will be an important vehicle in the debate on the future of regional policy, the indicators by which eligibility of regional funds will be assessed, energy policy and communication from the periphery to the core communication networks of Europe;
- Euromontana, as the priorities of the network align with those of the Council, the network allows easy access to similar regions to the Highlands for collaboration and information exchange on rural development and it is a key gateway to the European Commission who continue to use Euromontana as a point of access to the mountain regions of Europe; and

- North Sea Commission (NSC), as the Commission remains a key vehicle by which the EU may push for the development of a macro regional strategy of the North Sea. Such a strategy could well form the basis by which regional development funds will be distributed post 2020. In addition the Energy & Climate Change Working Group has the potential to facilitate experience exchange and fund attraction in the fields of waste management, energy mapping, renewable energy generation, energy grids and alternative fuels for transport. The work of the Transport Working Group is also of interest to the Council via its work on green and sustainable transport.

7.3 The Council priorities for engagement with the EU, as outlined in paragraph 1.3, remain relevant and align well for future funding via the Scottish European Regional Development (ERDF) and European Social Fund (ESF) Programmes 2014-20. These priorities also align with the emerging key objectives of the inter-regional programmes that Highland will be eligible to apply to for funds – Northern Periphery and Arctic; North Sea; Atlantic; Cross Border Irish and North West Europe.

8 Implications

8.1 Resource

The report highlights the contribution that European funding continues to make to the Council budget and notes the opportunities that exist for the Council and its partners to secure new European funding in the period 2014-2020. The sums that could accrue to Highland cannot, at this stage, be quantified but will require the Council and its partners to identify match funding.

8.2 Risk

Where the Council is awarded European funding, projects will be subject to audit. One of four projects audited in 2012 was found not to be fully compliant and it is likely that funding for that project (around £69k) will have to be re-paid. Section 3.2 of this report records only one identified non-compliance that resulted in a financial loss of £1,045 to the Council. This represents a 0.1% error rate over the claims checked.

To minimise risk of grant repayment, the European Unit provides support to Services on project development, administrative structures for data collection and presentation to ease claim development and dealing with audits.

8.3 Equalities

All projects seeking European support are assessed on a range of criteria including the impact on the horizontal themes of Social Inclusion and Equal Opportunities. Projects are required to demonstrate what Equal Opportunities policies, procedures and resources will be in place, but also explain how these will make a positive difference to the project. All Council projects have passed this appraisal.

8.4 Climate change implications

All applications are assessed on three horizontal themes including Environmental Sustainability. Applications are assessed and scored on how environmental sustainability has been taken into account in the design and delivery of the project, including resource efficiency, environmental impact and local sourcing. All Council projects have passed this appraisal.

8.5 Rural implications

The Programmes have been developed to reflect the socio-economic circumstances prevailing in the Highlands & Islands and the means of project delivery that is best suited to the largely dispersed low population density of the region. In this regard the Programmes should have a positive development impact on the rural parts of Highland.

8.6 Gaelic implications

The Operational Programmes will be summarised in Gaelic.

Recommendations

The Members are asked to note that in 2013/14 the Council:

- gained approval for £634,000 of EU grant;
- drew down £1,032,289 of grant for existing projects;
- processed grant to LEADER projects to the value of £4.33m;
- expects to invest £481.4K via the EFF Axis 4 Programme ;
- has been successful, together with its partners, in making the case for control over the €192M Transition funds.

The Members are asked to agree:

- to maintain an emphasis on carbon management, green transport, low carbon communities, employability, business competitiveness and smart cities within the Council's priorities for engaging with the Scottish Government regarding the attraction of EU funds 2014-20;
- to support continued Council membership of the Conference of Peripheral and Maritime Regions, Euromontana and the North Sea Commission; and
- to seek further reports on the total value of the regional funds to the Highlands from the 2007-13 Programmes and the potential value of the 2014-20 Programmes to the Council.

Designation: Director of Development and Infrastructure

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