

Agenda Item	<b>20</b>
Report No	<b>HC/31/19</b>

## HIGHLAND COUNCIL

**Date:** 27 June 2019

**Report Title:** Suspension of European Social Fund Payments

**Report By:** Director of Development and Infrastructure

### **1 Purpose/Executive Summary**

1.1 This Report provides information on the suspension of European Social Fund (ESF) payments, the value of the Council's and associated Third Sector current ESF supported activity and offers an assessment that until further information becomes available it is not possible to determine whether Council and associated Third Sector supported activity is directly affected and thus, whether there is a need to take mitigating action or not. Efforts to secure such information are ongoing and Council is requested to endorse.

### **2. Recommendations**

2.1 Members are asked to:

- i. Note the suspension of European Social Fund payments
- ii. Endorse actions already underway seeking urgent information from the Scottish Government to enable the Council to determine whether Council supported activity is directly affected and thus, whether there is a need to take mitigating action or not.

### **3. Background**

- 3.1 On 24<sup>th</sup> May the Scottish Government wrote to all lead partners in Scotland, including the Council, who manage European Social Fund (ESF) resources. This letter advised that the European Commission have, following an Audit undertaken in July 2018 of the Scottish Government systems, suspended payment of any claims submitted by or due to be submitted from Scottish Government until the identified issues have been resolved.
- 3.2 In this letter the Scottish Government have stated that they “cannot afford to fund programmes of this size without the ability to reclaim the full costs from the EC.” They further advise that not all operations are affected and they will make payments if they can, but they anticipate this interruption to existing and future submitted grant claims from lead partners to the Scottish Government will continue until late 2019.
- 3.3 Whilst the full Audit details are not known, it is understood that the European Commission perceives there to be concerns with procurement procedure; how staff costs are accounted for; and a mismatch between funds spent and reported outcomes. This is particularly the case for employability projects.
- 3.4 It is understood that the Scottish Government and the Commission are actively working to identify a solution.

### **4. Council Activity**

- 4.1 The first of the Council’s ESF supported activity commenced in 2015. At the current time, across this suite of Employability Services and Poverty and Social Inclusion activity, the Council has:
- successfully claimed £2,596,406 ESF
  - ESF claims to the value of £64,297 have been submitted to Scottish Government and await payment
  - activity to the value of £1,593,840 ESF to the end of December 2019 is due to be claimed.
- 4.2 The activity supported by ESF is a mix of Council activity delivered directly by itself or indirectly via contracted providers. Depending on the service provided, these providers are contracted either on a fixed term or call-off basis.
- 4.3 A particular issue of note is the fact that the Council, when contracting and paying for long-term employability support from third sector providers, does not use its own funding but rather retrospectively reclaims ESF. The value of ESF to be claimed in this manner in 2018 was £733k.

### **5. Assessment**

- 5.1 Whilst there was no prior warning of this suspension announcement, given the challenges encountered with the current ESF programme, it is not a surprise that Audit problems have been encountered. Throughout the Programme given the changing, or lack of, guidance and requirements from the Scottish Government often over and above EU rules, there have been different interpretations made on the same rules.

- 5.2 The Council is an experienced lead partner when managing European Funds and has followed appropriately the guidance offered. The fact that the Council has also successfully claimed ESF to the value of £2.59m, and has had its activity audited and approved (each claim made has a compliance check by Scottish Government), indicates that the Council has correctly followed the guidance in place by Scottish Government.
- 5.3 At the current time, until further information is provided by the Scottish Government, it is not possible to determine whether Council and associated Third Sector supported activity is directly affected and thus, whether there is a need to take mitigating action or not.
- 5.4 Accordingly, action urgently seeking such information from the Scottish Government has already commenced, with the Council Leader writing to the Cabinet Secretary for Finance, Economy and Fair Work. Council officials are also working closely with CoSLA and the Scottish Government on technical matters and a possible accounting solution.
- 5.5 Members are asked to further endorse the Council Leader's request for early and further information from the Scottish Government, in order that the Council can determine whether mitigating action is required and the situation can be managed or whether activity needs to be reduced or stopped.

## **6. Implications**

- 6.1 Resource – Paragraph 4.1 sets out the further level of ESF resources involved to date and up until end December 2019. Work will continue with Finance Service colleagues to monitor and assess the short and longer term impacts and implications for service delivery by Council and contracted providers, including Third Sector providers.
- 6.2 Risk – There is both a historic (for claims already paid) and ongoing/future financial risk to the Council. Until further information is received it is not possible to define and calculate the resources involved.
- 6.3 Legal – The Council enters into contracts with providers and thus the urgent clarification requested is necessary to inform such forward commitments.
- 6.4 Community (Equality, Poverty and Rural) – The ESF resources secured bring additional resource and added value to services which seek to support some of Highlands most disadvantaged residents, to address and progress out of poverty.
- 6.5 Climate Change/Carbon Clever – No implications
- 6.6 Gaelic – No implications

Designation: Director of Development and Infrastructure

Date: 18 June 2019

Author: Andy McCann, Economy and Regeneration Manager