

The future of EU Structural Funds in Scotland

This issues paper is part of Hall Aitken's work for the Scottish Executive to explore how EU Structural Funds might be administered in Scotland after 2006. It provides background for the discussions at the stakeholder engagement events being held around Scotland over December 2005 to January 2006.

EU structural funding as we know it will end in 2006

Budget cuts...

When the 2000-2006 EU Structural Funds programmes end, the basis for any ESF and ERDF funding that Scotland may receive will change. Exactly what this will mean is uncertain, not least because the EU budget negotiations remain unresolved. However, it is clear there will be a large decrease in the funds available in Scotland.

The final settlement may result in as much as 60% of current funding being available in Scotland. It may well be as little as half of that, however, at 30% of the current levels. It is possible that no funds will be available in Scotland. The largest cuts will be in lowland and upland Scotland, which will almost certainly experience a drop to less than 50% of current levels.

... and greater strategic alignment

Additionally there could be an opportunity to secure greater benefit for each euro of Structural Funds by aligning spend more closely with the much greater strategic context that now exists in Scotland. Since the current Structural Funds programmes were prepared in 1999, Scottish policy in many areas has been given a more clear strategic direction. It is important that future Structural Funds programmes add to these policies.

The current approach will need to change

Given the need for a more efficient use of funding, the Executive considers there may be a role for a Scottish form of co-financing to help deliver future Structural Funds. A Scottish system would take into account the characteristics of Scotland and Scottish experience with delivering Structural Funds. It would mean that at a project level, applications could be made to single integrated pots of funding with match already assigned to the EU funds.

A similar process of domestic realignment took place in England, but in Scotland circumstances are different, so a new approach would not be a simple matter of adopting the English co-financing system.

Such a system would also need to take into account how the existing system could be financed in future. The European Commission has made clear that the voluntary contribution approach to support the Programme Management Executives could not be continued into a future period.

The Executive has therefore initiated a process to develop key design principles for a system that will suit Scotland's needs. This will mean changing what needs to be changed but retaining elements of the existing approach that will continue to give us high value added in the new environment.

Lessons from other countries

We have reviewed current practice in Ireland, Spain, England and Germany. Each country has a system that has developed incrementally to suit its particular needs and particular interpretation of the role of the Structural Funds. None is suitable for transfer unaltered to Scotland – either now or in the future. Some consultees mentioned the Scottish system as having features they felt were better than their own. But we did identify several key themes and ideas that could be useful in designing a future approach in Scotland. Three clear themes related to strategic fit, local responsiveness and efficiency.

England

In England Government Offices (for each region) are responsible for administering Structural Funds. Over the last four years England has introduced a 'co-financing' model for the European Social Fund. This involves Government Offices delegating their project selection and management work to a Co-financing Organisation (CFO). The CFOs provide the necessary match funding *before* inviting these applications. In parallel with this system there is the opportunity for projects to apply directly to the Government Office and provision for projects and providers that run across several regions to apply as "national projects".

- ❑ It is not clear if there is more strategic fit than previously, but there is greater *tactical* fit – that is ESF funded projects are aligned more closely with other ways of delivering domestic strategies.
- ❑ There is mixed evidence that the new system has reduced administrative burdens. While some regard the audit burden as having been reduced, the introduction of co-financing has also run alongside an increase in level of monitoring required for ESF funding in the UK, masking any perceived improvements through the new system.
- ❑ Co-financing appears to have resulted in an increase in local responsiveness and an overall increase in access to funding by the voluntary sector *as a whole* in many areas – but the picture differs across the country. But views vary and there are many in the voluntary sector who claim the system has reduced the voluntary sector involvement and the impact of the funds.
- ❑ Distributing ESF funds alongside their own funds means that CFOs are using their own established quality assurance schemes. This is claimed to have a positive impact on quality delivery. Again there is some dispute about this, but the principle of using existing quality management schemes rather than introducing a parallel system is clear.

Germany – North-Rhine Westphalia (NRW)

In Germany European funding is distributed, and to a large extent delivered, by both national and regional government. The Bund and Laender generally use ESF alongside existing programmes to widen access to particular disadvantaged groups or those who for other reasons are not eligible for the main programme. ERDF projects are more discrete but again more likely to be delivered and developed directly through regional government

than as discrete projects in the way familiar in Scotland. Programmes are delivered through many different policy units within different ministries, as well as a number of intermediary organisations.

- ❑ Delivering EU funds alongside existing national and regional programmes appears to ensure a high degree of strategic and tactical fit and efficiency. However, tying up fund allocations accordingly can make the system inflexible.
- ❑ Involving many different bodies and experts can drive up project quality but there is a danger that the system becomes less transparent. In NRW there are plans to make the current paying authority – the NRW Bank - a single port of call for applicants.
- ❑ The example of NRW shows that such a system can still be responsive to local needs by actively involving local organisations, such as municipalities, as funders, project promoters and through the monitoring committee.
- ❑ Competitive bidding is seen as a way of driving up project quality and innovation and there are plans to make more use of it in the future.

Ireland

In the current funding period, EU funding has been managed through the two new regional assemblies and central government departments and delivered as part of the National Development Plan (NDP). The strategic thrust of this programme was defined as “balanced regional development”. Thus, in contrast to earlier programmes, expenditure has been delegated to the appropriate government department or regional structure – matching funding for business start up with County Enterprise Boards and tourism marketing with the Tourist Board, for example. However, projects can be developed by any agency and submitted to the relevant government or regional department. Applicants must assemble match funding from a variety of sources – although this will often be a fairly straightforward process, given that the funding is already identified in national planning.

- ❑ The thrust of the current approach is to increase local responsiveness. But there are some criticisms here in that the operational plans are relatively fixed and therefore can be seen to be inflexible.
- ❑ The inclusion of EU Structural Funding in national strategic planning processes ensures that it is fully aligned to national strategy, rather than in a parallel system.
- ❑ The variety of routes for application that results from directing the funds through the range of national and local bodies does provide some confusion.

Spain

In Spain the 17 autonomous regions share the responsibility for Structural Funds delivery with the central government. Central government retains most of the management responsibilities for Objective 3 delivery. Although Objective 2 delivery is devolved to the regions, central government still supervises it and makes the ultimate decisions. The allocation of Structural Funds is closely linked to national and regional policies and most of the funds are channelled through existing economic development channels and structures. Central government together with local councils specify projects which are then put out to tender by local councils.

The Spanish system is a hybrid system in that delivery bodies provide the match funding together with the EU funds for part of the projects, and applicants have to find match

funding themselves for others. A key feature is that the central government is very much involved in project selection.

- ❑ A system can be seen as fair and accessible even if decisions are made at national level. Consultation at a local level and effective communication of programmes and criteria are key to this.
- ❑ Extensive monitoring requirements at different levels is a major point of criticism but these may be a downside of the existing administrative structures rather than the Structural Funds delivery system.
- ❑ Limiting the provision of match funding in single stream delivery to priority areas is possible and may enhance strategic and tactical fit.

Strategic fit

Each of the systems that we looked at claims to have a significant level of national strategic fit. Most strategies are so widely drawn that this is not in itself difficult. But it can be argued that there is a greater alignment of EU funds on national and regional government's *tactical* priorities in all of the case study areas than in Scotland. This is because government departments and agencies have a greater decision making and management role.

In England, the co-financing organisations (CFOs) already work within a strategic framework – in particular the Regional Economic Strategy (RES). It is therefore argued that co-financing has enhanced the extent to which European funding is used to support national and regional strategy. Because the German Structural Funds programmes are delivered as part of, or alongside, national and regional programmes it can be assumed that the strategic fit is good, as well.

Equally, in Spain Structural Funds are distributed alongside national and regional programmes and the delivery system is based on existing structures. The main aspects that ensure strategic fit with existing priorities are that the managing authority has the ultimate say in decision making and ties the provision of match funding to strategic fit of projects.

In Ireland, EU funding is delivered as part of the National Development Plan (NDP). Given the relatively small size of Ireland, the regional structure and significant levels of consultation in developing the NDP and subsidiary regional plans, it seems likely that strategic fit would be strong irrespective of the detailed method of funding administration.

The key to strategic fit is determining where, within its broad scope, Structural Funds can make the most difference to achieving national strategy. This is a combination of:

- ❑ targeting on strategic priorities;
- ❑ complementarity with other action; and
- ❑ choosing the most effective delivery agencies.

It is difficult to show beyond doubt that any other country does this better than Scotland, but any new system should aim to meet these three goals. With much less money available this becomes even more important.

Local responsiveness

Local responsiveness is a function of decision making being placed at a relatively local point, not the mechanism by which this happens. For example, the German model is generally less locally responsive than others because it is delivered through national and regional bodies. One of our interviewees commented favourably on the Scottish system pointing to its greater ability to meet local regeneration priorities and needs. On the other hand, the municipalities are important funding partners and applicants under some measures which increases local responsiveness in some areas. In our case study Land North-Rhine Westphalia local involvement seems to be higher than in other Laender due to the particularly active role of the monitoring committee.

In England, views on local responsiveness vary across regions and areas. But the evaluations of co-financing across England in general point to an increase in local responsiveness and an overall increase in access to funding by voluntary sector organisations. We conclude that this is essentially the result of decentralising decision making from regional organisations (Government Offices) to more local organisations – LSCs and Jobcentre Plus offices.

The focus of the current Irish approach is to increase local responsiveness and evidence from existing evaluations suggests that it has been rather successful. Criticisms that the operational plans are inflexible may be as much a feature of the relatively fixed nature of European funding within each programme period as any local approaches.

Our consultations in Spain found that the present system seems to satisfy local needs well enough, mainly due to effective communication structures and extensive stakeholder consultation. However, whilst SMEs feel they have adequate access, small voluntary sector organisations find it more difficult to get involved.

Many consultees in other countries saw greater local responsiveness as a desirable goal.

Efficiency

The evidence on efficiency is difficult to determine on a comparative basis. Certainly heavy administrative loads are a feature of all systems. There is little conclusive evidence that the English co-financing system has reduced this – although in some cases the burden has shifted to co-financing organisations from project applicants. A general increase in monitoring requirements over the period has probably been more important than any particular system.

It appears that in Germany the overall cost is significantly less, because EU funding is delivered alongside existing programmes rather than to separate discrete projects. In Ireland, there appears to be general satisfaction with the efficiency of the current delivery systems.

In Spain, the bureaucratic burden is a major reason for complaint from delivery bodies and projects alike. The complaints mainly relate to monitoring requirements and the number of audits involved.

Generally it appears that the problem stems from Structural Funds regulations as opposed to the national and regional administrative structures. As administration and bureaucracy are a

heavy burden that subtracts value from the funds, any system should aim to reduce this burden as far as possible.

Quality delivery is an important part of overall efficiency. Part of the reasoning behind the English system was to use existing quality assurance mechanisms (for example those of the Learning and Skills Councils) to boost delivery quality.

Discussion issues – designing a new system

Our comparative analysis of the systems in each of the other four countries leads us to identify a series of design issues for a new system. We have gone on to discuss these with Scottish stakeholders and developed the issues further. At the stakeholder workshops (and following on from them) there will be an opportunity to comment these design principles that could be used to underpin the future approach.

The following are areas that a future system will need to address and will form the basis for discussions in the stakeholder workshops.

Achieving strategic fit

All countries (including Scotland) can show a link between each intervention and national strategy. This does not mean that the interventions are the best use of funds to achieve strategy however. Only in Ireland is there quantified analysis the contribution of Structural Funds to national growth – but this is due in good part to the high levels of funding that have been available there. For the future in Scotland, under conditions of reduced funding, our consultations suggest that a clear definition of the role of EU funds in achieving Scottish strategic goals is critical. This means working out how Structural Funds can make the most difference to achieving national strategy. This is a combination of:

- ❑ targeting on strategic priorities;
- ❑ complementarity with other actions; and
- ❑ choosing the most effective delivery agencies.

Building in tactical fit

In our case study regions EU funds are delivered alongside existing programmes at national and regional level and managed by agencies that are responsible for appropriate policy areas.

In Scotland views are mixed with the particular concern being that funds would be subsumed into national programmes. This is the case in some of the case study areas but not in others. England provides examples of both situations. In some areas co-financing bodies have matched ESF funds with their own, specified types of intervention that are needed within their strategy and then contracted with delivery agencies to deliver in flexible ways. In others funds have been delivered much more closely alongside existing interventions and contracts specified extremely tightly.

The key issue may be what goals and method of operating the co-financing agency adopts, or what conditions and constraints are placed on them, rather than the mechanism itself.

The place of competitive bidding

There is general agreement that competitive bidding drives up the quality of applications. There is less agreement that this in itself produces quality projects. But since the challenge funding approach (which is also a feature of the current system in England) provides transparency, it has many advocates. In Germany, for example, there are plans to introduce a greater level of competitive bidding in the future and other countries have some level of competition or challenge built in.

Our consultations in Scotland highlighted that competitive elements would be important. These could take different forms, including some of the following:

- ❑ A competitive bidding process for small grants of, say, up to £15,000 – building on the Key Funds and other similar approaches from Scotland;
- ❑ A strategic competitive bidding process for large capital projects - so that the Executive does not award large sums to co-financing agencies for unspecified one-off projects;
- ❑ Competitive bidding by deliverers to co-financing organisations (as in England) within specified tactical priorities;
- ❑ Competitive bidding by agencies to become co-financing agencies (again as in England).

The potential role of commissioning

Spain appears to provide an example of an alternative approach to simple competitive bidding by using a more gradual process of agreeing projects and selecting delivery agencies in principle, before working up specific ideas. Some Scottish consultees suggested that co-financing agencies could commission projects from specific delivery agents and then provide support to develop appropriate projects, allow a more proactive approach to project development than is currently the case. It might provide the opportunity to divert resources currently spent in supporting an arduous selection process to supporting project development.

Valuing innovative approaches

It is difficult to determine how truly innovative approaches in other countries are. In Ireland Structural Funds have supported a wide range of new projects and approaches. There appears to be a consensus in Scotland that innovative approaches have been an important part of Structural funds in the past and should remain so – with some arguing that this aspect should receive increased emphasis.

The role of partnership

Partnership decision making and implementation has been key feature of the Scottish approach to Structural Funds. In Germany the main area for partnership working is within the Monitoring Committees and in the other countries the partnership working appears to be less than in Scotland. Peer assessment of bids in a competitive context is most highly developed in Scotland. Stakeholders hold very mixed views about the role of the existing type of partnership decision making. They also hold mixed views about the potential role of newer structures such as Community Planning Partnerships.

Cocktail funding

'Cocktail funding' is a feature of some Scottish projects and we are exploring the extent to which it is now prevalent. In Spain there is an element of flexibility in the system that means that creative project sponsors can work with government agencies to develop projects that might be cocktail funded, in addition to the more usual routes.

In Scotland some suggest that cocktail funding is overly burdensome, would be less important with lower budgets and could be assembled by 'co-financers' in any case. Others hold that it is essential to innovation and creativity.

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