

Public consultation on the Fifth Report on Economic, Social and Territorial Cohesion: The Future of Cohesion Policy

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SCOTLAND EUROPA MEMBERS' CONTRIBUTION | 6 JANUARY 2011

Introduction

Scotland Europa Members welcome the opportunity to contribute to this important consultation on the **Fifth Report on Economic, Social and Territorial Cohesion: The Future of Cohesion Policy**. Scotland Europa Members, including the East of Scotland European Consortium (ESEC), Convention of Scottish Local Authorities (COSLA), the South of Scotland Alliance, as well as Scottish Enterprise (SE), have significant experience of both Cohesion Policy's strategic context and its operational funding programmes. As active commentators on the Policy's evolution, we are well-positioned to discuss and debate its future and to play a full part in the enhanced opportunities offered for regions and local actors. We very much hope that our knowledge and practical experience in the field will help inform and shape the Policy's future development, and we look forward to engaging in the ensuing discussion and debate which will help to determine how Cohesion Policy will continue to deliver on EU objectives.

Members are **strongly supportive of the broad direction** and aspirations for the future Cohesion Policy's revitalised and central role in boosting and sustaining Europe's economic growth. While this comes in the aftermath of the worldwide recession, it is very much hoped that the Policy's role and longevity will remain an essential driver for Europe, for many years to come. In this light, Cohesion Policy's **alignment with the Europe 2020 Strategy is very much welcomed**, while recognising the Strategy's ten-year lifespan and the Lisbon Treaty's provisions to include territorial cohesion as a permanent objective, alongside economic and social cohesion.

Inevitably, there are a range of questions and concerns which Members have in relation to the future of Cohesion Policy. With the debate underway, it is anticipated that the **voices of regions and other local actors will be instrumental in shaping the Policy's precise direction**, not least in defining their roles and aspirations in taking a lead position in determining the viability of Europe's regions in the future.

Scotland Europa Members' views have been outlined below under key discussion themes which are closely aligned to the consultation questions.

6 January 2011

Scotland Europa

Scotland Europa is a membership-based organisation that promotes Scotland's interests across the institutions of the European Union and to the representatives of Europe's regions and Member States. We help Scottish organisations foster successful European relationships, providing guidance on European policies and funding.

Scotland Europa membership brings together a wide range of Scottish organisations from the public, private and education sectors. We are also part of **Scottish Enterprise** working closely to support our colleagues, both in Scotland and in Scottish Development International offices across the world, to enhance Scotland's economic development and influence in Europe.

Scotland Europa also works collaboratively with other appropriate representative bodies in order to develop consistency of approach on issues of national and regional significance.

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COSLA

COSLA, the **Convention of Scottish Local Authorities**, is the representative voice of Scottish local government and also acts as the employers' association on behalf of all Scottish councils.

ESEC

The **East of Scotland European Consortium** (ESEC) was established in 1992 to promote the European interests of local authority members and engage with European policy and funding issues on their behalf. ESEC represents 13 local authorities in Eastern Scotland.

Our aim is to:

- Share intelligence and maximise funding opportunities
- Lobby and petition on behalf of the East of Scotland
- Ensure policy engagement

Scottish Enterprise

Scottish Enterprise (SE) is Scotland's main economic, enterprise, innovation and investment agency. Our ultimate goal is to stimulate sustainable growth of Scotland's economy.

South of Scotland Alliance

The **South of Scotland Alliance** was established to promote the interests and raise the profile of the South of Scotland region, particularly in Edinburgh, London and Brussels. It comprises Dumfries and Galloway Council, Scottish Borders Council and Scottish Enterprise.

Collaborative contributions

Other partners who have contributed to this consultation response are Glasgow City Council (acting as lead authority for the West of Scotland European Forum) and Highland Council. The latter is a constituent of Highlands and Islands European Partnership (HIEP).

Introduction

Scotland Europa welcomes the opportunity to provide a response to the Fifth Cohesion Report and has grouped the consultation questions to allow for continuity of the narrative in the themes explored. The questions have been grouped as follows:

- Questions 1, 2 and 7 – relating to aligning Europe 2020 and Cohesion Policy, the scope of the proposed Development and Investment Partnership Contracts and improving the partnership principle. Our members have placed specific emphasis on the **importance of partnership principles and structures, especially at the local level. Scotland can offer a range of good practice examples** demonstrating effective and sustainable partnership models for achieving economic development and wider local objectives. Our experience resonates strongly with the proposed **Development and Investment Partnership Contracts** and the concept of **Smart Specialisation**. While we seek greater clarity of the intended nature and focus of these concepts from the European perspective, our response offers insights into Scottish level experience which is already reaping benefits and which we would wish to build upon, within the context of Cohesion Policy;
- Questions 8, 9, 10, 11 and 12 – relating to audit and simplification, proportionality, common rules, financial discipline versus flexibility and aligning Cohesion Policy and Europe 2020 with the individual Funds. Scotland Europa has already embarked upon a programme of consultation with both our membership and other Scottish level partners to identify **best practice for simplification of EU programmes**, with an initial workshop event in November 2010. This response contains a summary of the key issues which have, so far, emerged in our programme of discussions. This includes **a series of recommendations for both current and future programmes**. We are already in discussion with DG Regio's Conception, forward studies and impact assessment unit regarding incremental outputs from this strand of work, as well as sharing it with a wider range of European networks and regional audiences.

Scotland Europa will also host a **strategic event for members in February 2011 concerning the future of Cohesion Policy**. This timescale was set to allow for consideration of the Fifth Cohesion Report, the wide range of discussions and debates already taking place across Europe and the Cohesion Forum. We will continue to liaise with Commission officials to ensure a strong dialogue in the lead up to this event and in delivering important feedback.

Overarching messages

Scotland Europa members broadly welcome the general direction outlined in the Fifth Cohesion Report. In particular, there is strong support for the confirmation that Cohesion Policy exists for all regions. A results-based orientation is also welcomed, with less focus on spend and more on programme quality and impact. The emphasis on endogenous development is viewed as a clear signal of the Policy's role in supporting enhanced economic growth. In this vein, **the alignment between Cohesion Policy and Europe 2020 is very much welcomed**, although with a note of caution concerning the ten-year lifespan for Europe 2020. In this vein, we also emphasise the importance of territorial cohesion, as a permanent

objective of Cohesion Policy to complement existing objectives of economic and social cohesion. As discussion and debate concerning Cohesion Policy's future take place, Scotland Europa looks forward to the emergence of more detail concerning the exact role and nature of the future Policy, and – more specifically – the role of regions in designing and delivering on Cohesion Policy objectives at the local level. To this end, members fully anticipate a **renewed emphasis on Commission dialogue with the regions and local stakeholders.**

As noted above, Scotland Europa members are keen to ensure that the proposed **Development and Investment Partnership Contracts are designed with regions at their core.** Scotland Europa believes that the regional level is the right level for the types of decision making and action which make real differences on the ground and contribute strongly to economic growth. This is fully in line with the delivery aspirations of Europe 2020 and the wider European principle of subsidiarity. The concept of local development approaches is welcomed, with its 'bottom-up' focus and grass-roots delivery aspirations. Equally, we welcome the proposed, strategic orientation for Cohesion Policy. Alignment of these concepts will be crucial, together with a tighter delivery focus and thematic prioritisation. To this end, we welcome further detail of the concept of **'functional economic areas'** and how these align with both local development approaches and a stronger focus on the urban agenda.

The Fifth Cohesion Report notes a stronger focus **on regions adopting a more strategic orientation,** coupled with a greater emphasis on the use of financial engineering instruments. **This implies a greater concentration of funds.** With a local development approach, it will be crucial to retain the necessary strategic orientation to ensure that the right levels of governance are in place to manage and underwrite the operational and financial risks involved.

In terms of **audit and simplification,** members are keen to ensure that any proposed changes within the current and new programming periods **do not entail wholesale change,** further stifling motivation and incentives for regional and local actors to engage with funding programmes which are deemed to be overly burdensome and complicated. Furthermore, our recent work in this area has reinforced the request from members for the Commission to **address the 'culture of mistrust'** surrounding programme audit, which currently prevails. Members expressed the continued need for stability, proportionality, transparency and consistency with programme audit and management. **Further standardisation of approaches** across EU programmes is viewed as a step in the right direction, and strongly aligned to the concept of a Single Strategic Framework.

Questions 1, 2 and 7 –aligning Europe 2020 and Cohesion Policy, the scope of the proposed Development and Investment Partnership Contracts and improving the partnership principle

The proposed Development and Investment Partnership Contracts should offer the **appropriate mechanism for regional engagement and decision making,** in partnership with Member States and the Commission. Guidance is required concerning how and when these Contracts will be designed, who will be involved and what activity they will focus on. There also needs to be an open and honest debate concerning the proposed conditionalities (see below), a renewed focus on incentives and clarity concerning monitoring arrangements. The Contracts also appear to offer the foundations for realising how regions can deliver on local priorities within the framework of the Europe 2020 strategy and using the guiding principles of Smart Specialisation, to transform plans into regional and local level action. Again, we

welcome Commission discussion and debate on the proposed governance and processes for achieving this.

Members recognise that these Contracts offer a real opportunity for the Commission to demonstrate their support for and confidence in Member State and regional delivery structures, provided they are designed with the above issues in mind. **Scotland's experience of Community Planning Partnerships and Single Outcome Agreements** demonstrates the benefits of such an approach to local development with a 'bottom-up' focus, linked to national / regional objectives. There is also support for the idea of the Contracts operating in policy areas beyond Cohesion Policy. Members are supportive of the Contracts operating in areas such as energy, transport and climate change mitigation.

However, this support is tempered by the cautionary note that Contracts must have a clear remit, strong local engagement and freedom from onerous auditing procedures if they are to demonstrate their true value. Sufficient lead-in time to get these entities in place prior to programmes commencing in 2014 will be crucial. It is important that they start from a position of confidence and readiness, if they are to sustain momentum and develop their capacity over time. There should also be sufficient flexibility within the contracts and over the programming period to reflect changing circumstances and priorities.

Improving the 'partnership principle' means learning from the lessons of the Lisbon Strategy (where this principle was largely absent) as well as learning from existing good practice (such as the example of the Scottish Community Planning Partnerships and a similar model to this operating in the South through the South of Scotland European Partnership and Global Grants Body). In return for the Commission's support and guidance in getting the Development and Investment Partnership Contracts off the ground, **regions will need to demonstrate their flexibility in engaging with different types of partnership models**, to suit different purposes and with the aim of long-term economic gain.

Question 3 – Stronger thematic concentration of Europe 2020

Provided there is genuine alignment between Europe 2020's core themes and regional priorities, Scotland Europa agrees in principle with a stronger alignment with Cohesion Policy. However, we stress the underlying importance of **regional and local intelligence and local evidence bases** in demonstrating that need and alignment. This resonates strongly with the concept of **Smart Specialisation**. Regions are best positioned to define their competitive priorities, based on the richness of local data sources and recognising 'what works' in terms of economic growth. In Scotland, this approach already exists through the **Government Economic Strategy** which has prioritised themes such as renewables, climate change mitigation and life sciences to carve a pathway for economic revival and sustainability. Scotland Europa recognises that a future Cohesion Policy will require a further concentration and prioritisation of drivers of growth. Scotland is well on the road to achieving this. In this vein, there is a need for the Commission to make **greater in-roads across regions in working with them to develop the concept and to raise awareness of what Smart Specialisation will mean for the regions**.

Question 4 – role of conditionalities, incentives and results-based management

Scotland Europa recognises the positive role conditionalities can play in acting as a lever for delivery. Indeed, audit systems – designed effectively – have this role to play, as do regional / local level programme rules and eligibility criteria. However, **sanctions and rewards associated with conditionalities need to be appropriately designed and targeted to ensure no misalignment of incentives**. In addition, such mechanisms must be fully debated and

agreed well in advance of implementation. Members also recognise the need for **specific and significant resources to design and implement conditionalities** such that they operate effectively, accurately and credibly. We also request that any move to implement conditionalities does not remove the importance of undertaking ex-post evaluations of programme delivery and impact.

The concept of 'external conditionality' raises some concerns, especially for those Member States outside of the euro-zone. Similarly, there is little support for a 'performance reserve' mechanism for a number of reasons: 1) there would need to be a great deal of evidence generated to demonstrate results-based performance at regular intervals. This is evidently more difficult to predict at mid-term stages where spend should not be confused with outcomes or impact; 2) there needs to be greater consideration of the possible consequences of such an approach in terms of possible perverse incentives (e.g. where programmes under-report or limit aspirations for delivery with the aim of surpassing expectations, in order to qualify for additional funding through the performance reserve.)

Question 5 – More results-orientation

A results-orientation is, in principle, welcomed by members. This mirrors the recognised need for Cohesion Policy to demonstrate its additionality, in relation to acting as a catalyst for economic growth. In tandem, there is an expectation that programme audit systems would also follow this principle, to allow for stronger reinforcement and to focus attention on outcomes, as opposed to process and spend. This **assumes a re-shaping of EU audit systems for Cohesion Policy programmes, to fit with this results-orientation**. In terms of obligatory priorities, there is less support for such a process which could potentially stifle innovation and measured risk-taking. Members propose that the Commission generates a **menu of options which can then be shaped to fit genuine regional and local need**. Again, a robust, regional evidence base of this need will be required.

This approach also implies improvements in how Cohesion Policy is evaluated, at programme and macro-levels. Scotland Europa recognises the challenges this presents and, indeed, this is echoed in the Fifth Cohesion Report. However, we are strongly committed to supporting a future Cohesion Policy which can demonstrate the additionality it brings in terms of employment and economic growth. **There is a need for the Commission to revitalise the Cohesion Policy evaluation agenda, such that regions can share practice and learn about new / improved methods of undertaking such activity**. Scotland has a long and credible track record in evaluation work. This is something we would readily share with others. There appears to be a current gap in regional dialogue in this area and the Commission is urged to consider addressing this.

A proposed acceleration of the widespread use of **financial engineering instruments** appears in line with a results-orientation. In theory, a loans-based model offers greater incentive for ownership of and commitment to achieving sustainable impact from Cohesion Policy delivery. Scotland already has important experience in this area with the Scottish Enterprise Partner Model. In this vein, we anticipate that the **concept of financial engineering will be afforded the scope of local / regional flexibility and development**. Regions should be encouraged to develop creative and flexible approaches to how they design and use financial engineering models. Learning from the experiences of existing models (such as JESSICA and JEREMIE) will be central to this. The 'revolving door' nature of such funds also offers added incentive, provided that the regions have more scope to re-use the funds as they see fit. More generally, this needs to be tempered with the current 'state of play' across Europe in relation to the use of such funding instruments.

Eligibility criteria (e.g. for JESSICA and JEREMIE) is far from clear and not always suitable for the types of intervention Scotland requires to focus on. In addition, there **appears to be a huge gap in knowledge, confidence and capacity across Europe in relation to financial engineering instruments**. A significant programme of capacity building support is likely to be necessary to ensure that regions are able to engage with this type of funding in the future. It marks a significant cultural change in funding approaches and the scaling down of the grants-based system will require a long lead-in time, to ensure sufficient capacity is built across Europe's regions for effective and confident engagement with loans-based models. It is also important to recognise that there are still areas of Cohesion Policy where repayable funding and the need to generate a return are not compatible. We need to guard against a situation that could lead to a skewing of investment to areas with a stronger market, reducing the additionality of the funds. An appropriate balance in moving resources from grants to financial engineering instruments needs to be found to ensure funds remain available to address key aspects of social, economic and territorial cohesion.

Question 6 – Recognised role of urban areas in Cohesion Policy and areas with specific geographical features

In line with the Fifth Cohesion Report's focus on 'functional economic areas', our membership very much takes the view that specific geographies should be defined and determined in accordance with need and opportunity and driven by a local development approach. Indeed, the purpose and results should determine the geography (and not vice-versa). This incorporates small geographies (e.g. cities; market towns; commuter towns; rural areas; mining communities etc), wider functional economic areas such as city regions, as well as macro-economic strategies (such as the mooted North Sea strategy). There are instances in Scotland where we can see the use of such approaches, not only in our urban areas which often experience a concentration of social and economic issues but in our rural communities who are challenged by territorial issues relating to relative peripherality and distance to markets. However, the use of such approaches must be based on evidencing opportunity and need while demonstrating economic potential. The urban / rural interrelationship in many ways underpins the ideology behind Cohesion policy and creating an urban-rural dichotomy is not only an unwelcome departure from a regional approach it is also very difficult to implement. A future Cohesion Policy geared to 'functional economic areas' would allow for much greater flexibility in the scope of planning for their economic growth.

Questions 8, 9, 10, 11 and 12 - to audit and simplification, proportionality, common rules, financial discipline versus flexibility and aligning Cohesion Policy and Europe 2020 with the individual Funds

As noted above, Scotland Europa has embarked upon a programme of consultation with our membership and other Scottish partners to generate concrete proposals for improvement in this area. While this work is on-going, we have **produced a series of core principles intended to underpin a refreshed approach to the auditing of EU programmes**. Intentionally, our work is not limited to an examination of Cohesion Policy programmes, but – in line with Commission thinking concerning a **Single Strategic Framework** – **our suggestions also incorporate the Lifelong Learning Programme and FP, and might also extend to other programmes such as LIFE+, Trans-European Networks**.

In summary, emerging issues are:

- **The time lapse** between programmes becoming operational and the new /updates rules which govern these are viewed as a **persistent obstacle to effective**

management. Programmes are often commenced with a level of ambiguity which impacts upon confidence and motivation to address programme management effectively. It is recommended that new/ revised regulations should not be applied to programmes which commenced prior to the time of these being implemented.

- Proportionality - the amount / level of auditing should be consistent with the size of the project / funds.
- **The application of ICT in audit is recommended** (including electronic purchase ordering), as is a greater devolution of responsibilities, to Member State level or by accepting accredited auditor reports. The audit process could also be enhanced by widening its scope to review project content.
- **Using system linkages would ensure that standard data needs only to be submitted once.** Linkages should also be improved between funding programmes. The thematic commonalities and synergies between European Programmes should be more clearly identified and articulated, to enable the development of a more strategic approach at the Member State and regional levels.
- **A 'culture of mistrust' still prevails**, particularly at Commission level, whereby it is assumed that a very high degree of audit and checking is essential. This does very little to improve relationships and to instill in applicants a stronger sense of motivation and confidence in the management of programmes.
- **A level of trepidation exists** regarding programmes post-2013, not least because of the fear that these could bring new and / or more complicated models of management and audit (e.g. to address the needs of **new funding models such as financial engineering instruments**). As such, there requires to be a greater emphasis on the incentives to engage with future programmes. A decrease of the audit burden is seen as a significant step in the right direction to achieving this.
- Overall, the underlying purpose of audit concerning EU programmes requires greater focus – i.e. that **audit should act as a process which assists both those managing the programmes and those assessing the effectiveness / direction of spend**. There is often felt to be too much emphasis placed on the 'prosecuting' focus of audit, to the detriment of 'helping' those working with programmes.

Members also noted the need to review common rules for Territorial Co-operation programmes. In addition, there are currently significant disincentives for lead partners on these programmes due to the audit burden they carry.

Question 13 – design of new / intermediate category of regions

Scotland Europa accepts the logic of transitional funding being made available for those regions whose structural fund support came from the convergence objective in the 2007-2013 period and whose per capita GDP now exceeds the 75% threshold. This mirrors the Fifth Cohesion Report's commitment to supporting all 'functional economic areas' of Europe. However Scotland Europa points out that there are wide variations in socio-economic performance within NUTS II regions and that there is a legitimate role for structural funds to address INTRA regional as well as INTER regional disparities. By recognising this fact the specific development challenges within parts of these large regions (whether these arise

from specific geographical features such as sparsity of population or from past dependence on industrial sectors such as coal, steel, shipbuilding or textiles that are now in decline or indeed have completely disappeared) can be taken into account when programmes are being prepared. As noted previously, funding allocations must be based on evidencing opportunity and need while demonstrating economic potential.

Several members have expressed the need for the Commission to make clear how such a new category of regions will be financed with clarity of how other regions are likely to be affected by this. As the Fifth Cohesion Report notes, Cohesion Policy should support all regions.

Conclusion

In conclusion, Scotland Europa welcomes the Fifth Cohesion Report and its bold aspirations for Cohesion Policy to play a key role in optimising Europe's economic growth, through the Europe 2020 Strategy. The **proposed Partnership Contracts, driven by local development approaches and a Smart Specialisation focus all offer particular appeal to Scotland**, which can demonstrate significant strides in this direction through existing models and mechanisms in Scotland. However, we must reiterate our call for **greater involvement of Europe's regional players in the design, set-up and implementation of this infrastructure**. A failure to do so is likely to leave Europe's regions at the starting blocks with little direction and focus for the full role they can play in making this vision a reality.