Finance Committee Inquiry into European Union Funding Competencies

SCVO response to Scottish Parliament Finance Committee

13 April 2018

This paper is now: Published

Our position

SCVO is a named stakeholder in the current European Structural and Investment Funds, and also a member of a UK-wide group exploring successor arrangements to EU funding.

Based on this experience:

There should be no regression in future successor funding to the status quo. We need to build on the opportunities that ESIF funding brings to social inclusion, combating poverty, growth of the social economy, labour market mobility and employability.

The current single Managing Authority (Scottish Government) approach to this type of funding is not necessary or ambitious enough. We advocate for multiple bespoke arrangements and the introduction of a dedicated civil society fund.

Transitional funding will be needed to mitigate human costs arising from gaps in funding during transition to successor arrangements.

SCVO supports common approaches across the UK to successor funding e.g. in how funding is managed and disbursed, but not common frameworks for specific policy areas as this could undermine devolution.

There is an opportunity for successor arrangements to learn best current practice from other funders and indeed from across the UK and internationally.

We would support a cross party group or Ministerial Convention on Europe/Brexit with a single focus on funding.

Our response

SCVO is named in the Operational Programmes to deliver the European Structural and Investment Funds in Scotland as a stakeholder and was one of a range of stakeholders consulted in the identification of the spending priorities.

SCVO is also part of a UK working group looking at the proposed "Shared Prosperity Fund" announced by PM Teresa May. This group consists of SCVO's sister councils across England, Wales and Northern Ireland and over 50 organisations delivering projects and programmes under the DWP Employability and anti-poverty programmes in England. The group is discussing the framework for successor funds i.e. whether to support a UK framework devolved but managed by different organisations with similar themes OR a "Barnetted" approach to the successor funds where devolved administrations decide on governance arrangements, spending priorities and allocations.

Based on this experience, we provide the following responses:

The extent to which the Barnett formula would provide an appropriate mechanism for funding competences returning from the EU to the Scottish budget

Barnett would only be appropriate if the value of returning funds did not regress from the status quo of approx. 900milion euros. Depending therefore on what the UK Government decide is the final amount of money "returning" to the UK then Barnett potentially could be beneficial to Scotland.

Colleagues in Wales currently receive more European Structural and Investment Funding (ESIF) than a Barnett calculation, provided in a like for like replacement of ESIF. This may lead to internal complications amongst the devolved nations.

However, there are risks to pursuing the Barnett route;

Owing to a failure to spend in the current ESIF programmes there is a high risk that there will be no additional funding from the UK government. The danger is that UK Treasury may arrive at the assumption that Scotland does not need a Successor Fund because they don't spend what they have.

The biggest concern is that ESIF replacements have been assumed here. Without membership of the EU, there would be no public spending equivalent to account for. The Successor Fund is not a guaranteed future spending commitment. Even if it is created, until it allocates resources to UK departments whose policy functions are devolved in Scotland, there is no guarantee of the use of Barnett.

Alternative mechanisms of funding of EU competences

What **MUST** happen is no regression on the status quo. The investment priorities of social inclusion, combating poverty, growth of the social economy, labour market mobility and employability must be ring-fenced and indeed enhanced. It is critical that these policy areas are not left bereft of investment after the end of this programme and post-Brexit.

By contrast, many improvements could be made as we could be potentially starting with a clean sheet and pot of money. There will be no requirement to follow the current Scottish European Funds National Rules and a more sensible grant facility could be introduced where compliance regulations are related to the amount of grant. There is a potential to introduce a Successor Fund Grant Scheme, which is 100% funding and provides advance payments to organisations. The level of the grant available should be proportionate to the overall size of the project e.g. current range is from £3000 to £3million.

There is an in-built assumption to current debates in Scotland that only a level of government can decide, allocate and be accountable for successor funding. SCVO would strongly disagree that this is necessary. We would like to see significant funds being managed by the third sector for the third sector. Our colleagues at the Welsh Council for Voluntary Action in Wales currently manage, allocate and are accountable for over £75 million of ESIF out to the sector. The funds are all committed and on target for spend. Investing in the sector and its priorities is low risk, high value and provides maximum outcomes. Our colleagues in Romania (FDSC) are the managing authority for all civil society funding. We need to be more ambitious in Scotland and learn from others. The current managers of ESIF in Scotland do not have a strong track record of good governance and management.

What mechanisms may be required to be put in place to support the funding of obligations and commitments arising from common frameworks?

Obligations: Gap/bridge/hiatus funding needs to be put in place to ensure a smooth transition from the existing arrangement to the new arrangements. History tells us that this does not go well and vital services and projects are left high and dry. As there would be a real human cost to this, the impact on people directly affected needs to be understood and mitigated.

Common Frameworks: It is not entirely clear what is meant here but if it means a UK common approach to a fund or set of funds then I refer to our previous answer about funds being managed by the sector for the sector.

SCVO is working in partnership with its counterparts across the UK and is supportive of a common approach to improving the accessibility of funding for the third sector. But we would not wish to agree a common framework to specific policy areas, for example to employability policy if it undermined the policy approach taken in devolved policy priorities. In Scotland for example, many in the third sector rejected the UK approach to employability as regressive, detrimental, sanction-led and excluding the easiest to ignore groups.

Now is the time for Innovation in genuine co-production with stakeholders. The third sector can provide a channel for this. But Scottish Government will need to appropriately resource the third sector to engage fully in consultations and working groups on a Successor Fund(s) or being part of UK Frameworks to build new funds. This needs to be done now.

What funding mechanisms should be used to replace EU funds that currently operate in Scotland?

We support multiple bespoke mechanisms to manage areas of policy and funding. We find that the model of one Managing Authority and large bodies managing large amounts of money and complex policy areas struggle with transparency, accountability and customer service. Arms-length arrangements which are independent and promote understanding of the relevant policy areas can really deliver transformational change.

In our view, the current Managing Authority have failed in their delivery of the programme. This is evidenced by both the 2007 - 2013 and the 2014 to 2020 programmes having had payments to Scotland suspended by the European Commission. In the 2007 - 2013 programme there was a significant amount of underspend and at the end of the programme the Commission identified some £12.3m of funds that had been paid to project holders by the Managing Authority during the programme which they would not reimburse. Hence these funds were totally lost to Scottish organisations.

Three years into the current programme there has already been £22.2m lost from the ESIF programme and with the N+3 rule being implemented this year it is quite possible that considerably more of the ESIF funds will be lost to Scotland. Organisations receiving funding from LEADER also report a heavy bureaucratic burden to reclaim, what is relatively small sums of money. It is therefore clear that the types of systems operated by the current Managing Authority are not fit for purpose.

We would be in favour of a UK arrangement with WCVA, NICVA and NCVO for example to manage and support a **civil society fund**. We would equally be in favour of co-producing these funding arrangements with the Scottish Government or relevant government agencies.

The EU operates a range of governance, enforcement and dispute resolution arrangements as part of EU funding support. What similar mechanisms will be required for post-Brexit Funding?

A change of mind-set is required as any successor fund should be collaborative, inclusive and work with partners to achieve outcomes. Many instances of good practices exist in other funds such as Children in Need, the Lottery or Trusts such as Esme Fairburn who work with organisations in a collaborative manner to achieve good outcomes. Successor funding will have no need to be punitive and consider enforcement as it would surely be a much more collaborative process.

Any Successor Fund must learn from the myriad of good grant funders already operating in Scotland.

What opportunities and risks does this process present to the funding of devolved competences that currently reside at an EU level

Opportunities

There is a potential to introduce a Successor Fund Grant Scheme, which is 100% funding and provides advance payments to organisations. The level of the grant available should be proportionate to the overall size of the project, which in the current programme can range from £3000 to £3million. There should also be flexibility to change priorities, focus and allocations depending on environmental factors and societal challenges.

In employability there is an opportunity to fund 100% projects targeted at stage one clients and pre-stage one clients. A much needed area of investment particularly when levels of employment are higher and national programmes do not provide for them.

Transnational activity can be much more explicitly supported for volunteer and staff exchanges, learning, networking and sharing given that we are likely to be excluded from ERASMUS+ or have limited access. In addition the Scottish/UK third sector will no longer have European Commission support through framework grants to collaborate and cooperate with civil society across Europe on the big policy issues and innovation. Successor funding must ensure this vital collaboration continues.

Risks

The UK government consultation on the UK Shared Prosperity Fund has been postponed until later this year (possibly early autumn) and there is deep concern about the timescale for replacing ESIF and the potential for a gap in funding. The Scottish Government (Managing Authority in Scotland) are not even discussing mitigation/hiatus proposals with key stakeholders.

Due to the failure to spend in the current ESIF programmes there could be no additional funding from the UK government. All monies to Scotland will be in the block grant and this may not be a good thing nor additional. Currently we receive approx. 940 million euros/£800 million pounds in European Regional Development Fund (ERDF) and European Social Fund (ESF). This is genuinely at risk. It is difficult to identify who is responsible and who has ownership and oversight of the big picture. It is beyond comprehension that the Managing Authority are so unaccountable and the inextricable links between ESIF and Brexit for Scotland are being ignored.

SCVO have invested a considerable amount of staff time at our own cost to try and influence this process and to help accelerate spending in the current programme and to avoid money being handed back. Money has been handed back and more decommitment is likely therefore allowing the UK Treasury to arrive at the assumption that Scotland does not need a Successor Fund because they don’t spend what they currently have. We have been ignored, not listened to, and dismissed. SCVO staff have extensive experience and expertise in this area and are highly skilled. We made genuine offers to help and our “expert advice” was not even acknowledged on occasions.

What arrangements will be required to ensure parliamentary oversight of post-Brexit funding arrangements?

SCVO have also responded to a call for evidence from the Economy, Jobs and Fair Work Committee who are asking largely the same questions and with the same deadline. Whilst we very much welcome both these opportunities it is perhaps an indication of not only the horizontal nature of Brexit but how Scottish Parliamentary oversight on the current ESIF programme issues and their implications for Scotland and Successor Funding post Brexit appears incoherent.

SCVO is part of a UK working group that has met with BIS, DEXU, DCMS and DWP on the Shared Prosperity Fund. Scottish Government are having conversations about the Shared Prosperity Fund. Whilst we understand the politics have a long way to go the PM announced this fund as the Successor Fund quite some time ago and in Scotland it is not even discussed. We must prepare for this being a reality and what we would like from it.

The landscape changes frequently on Brexit and the imperatives for successor funding with it. Parliamentary oversight cannot be a one off thing until this is over the line. It needs to be an ongoing, iterative process involving the expertise within the country. There is an urgent need for clarity from the Scottish Government on what will happen when this programme ends in 2020 with 2022 for final payments/approvals.

We would therefore support a cross party group or Ministerial Convention on Europe/Brexit with a single focus on funding. Our colleagues in England managed to secure an inquiry carried out by the Work and Pensions Select Committee on the future of ESIF.

About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £5.3 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1,900 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1,900 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
- brings together organisations and networks connecting across the whole of Scotland
- SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change.
- Further details about SCVO can be found at www.scvo.org.uk.

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