

**To: Leadership Board**

**On: 18 September 2019**

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**Report by: Chief Executive and Director of Finance and Resources**

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**Heading: EU Applications and Funding**

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## **1. Purpose**

- 1.1 This report advises the Board on the suspension of payments from the Scottish Government while work with the European Commission (EC) is undertaken to resolve a compliance issue relating to the European Social Fund (ESF) programmes.
  - 1.2 The report also provides an update on the Council's EU Funding applications and the award of the next phase of EU support.
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## **2. Recommendations**

Board members are asked to:

- (i) note the suspension of payments from the EC to Scottish Government and the efforts to date by Renfrewshire Council alongside other local authorities, to help resolve the compliance issues;
- (ii) note that Renfrewshire Council have already put measures in place to reduce EU spend until there is a satisfactory resolution to the compliance issues;
- (iii) note the successful delivery of the Phase 1 EU Programmes to end of December 2018 and the EU claims totalling £4,954,411 (ESF) and £458,471 (ERDF) submitted by Renfrewshire Council. Also note the allocation of £391,165 (ESF) in Phase 1 for Poverty and Social Inclusion which will be delivered and claimed by the Council in Phase 2;

- (iv) note the new EU Applications submitted by Renfrewshire Council that have been approved by the Scottish Government for a Phase 2 programme running until the end of 2022 totalling £4,370,975 (ESF) and £549,059 (ERDF) over this period.
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### **3. Background**

- 3.1 The Council's Economic Development team has been a lead applicant for EU Structural funding for many years. The most regular funding sources have been European Social Fund (ESF) to support the delivery of people focussed employability services and European Regional Development Fund (ERDF) to support business growth, start up and development services.
- 3.2 The current EU Structural Funds Programme covers the period 2014-20 with activities being able to run to the end of December 2022.
- 3.3 The EU Structural Funds for Scotland are managed by the Scottish Government (SG). The SG is the Managing Authority and the Paying Authority for EU Structural Funds in Scotland. As such it is responsible for drawing down EU funds and paying claims submitted by local authorities in respect of approved projects. Funds are drawn down from the European Commission in line with EU Regulations.
- 3.4 The first phase of the current programme (2015-18) was successfully completed by end December 2018 and more information on this is outlined in section 5 of the report. The ESF activities at the Council were subject to a series of compliance and verification visits by the Scottish Government's EU funding team over that period with no fundamental concerns being raised.
- 3.5 At Leadership Board on 20th June 2018 officers indicated that the new Council funding allocation to Invest in Renfrewshire of £4.5M for 2019–22 would enable EU funding applications to be submitted for that period. EU funding should augment the Council commitment to economic development and allow for the expansion of services.
- 3.6 Council ESF applications were submitted and recently approved for Phase 2 of the programme as outlined in section 6 of the report.

### **4. Suspension of EU Payments from EC to Scottish Government**

- 4.1 The Council was made aware, via a letter issued by Scottish Government to European Structural Funds Lead Partners on 24th May 2019, that payments of EU funds from the EC to Scottish Government had been suspended following a Commission audit.
- 4.2 The letter indicated that until corrective action was taken by the Scottish Government, the European Commission would cease making payments in respect of the programme. Further information indicated that the issues related only to the ESF programme. The value of ESF grant due to the Council through the programme is £4,954,411 in phase 1 and £4,762,140 in Phase 2 (£391,165 for PSI and £4,370,975 ESF).

- 4.3 In order to resolve the non-compliance issues the Scottish Government have asked all lead partners to provide previous claims information in a different format, using a particular (unit cost) methodology.
- 4.4 The Scottish Government (Managing Authority) wrote to Lead Partners on the 5 July to seek additional information and a deadline of 26 July was set for responses. The Scottish Government received a good response rate, with 61 of the 73 ESF operations in scope responding by the start of August including that of this Council, with work continuing to increase the response rate still further. Only when the exercise is complete can a final assessment be made of how much money will be able to be claimed by the Managing Authority (i.e. the Scottish Government) from the European Commission.
- 4.5 The 15 November 2019 is the deadline for resolution to the audit issues however it is the intention of SG to complete its work as early as possible in September before relaying its findings to the European Commission. The possibility of the UK leaving the EU without a deal on 31 October 2019 has to be taken into consideration.
- 4.6 The full risk to the Council and local government as Lead Partners (although there are other stakeholders equally affected) in delivering on the currently approved ESF Strategic Interventions is difficult to quantify without further detailed information from the Scottish Government.
- 4.7 While there have been some recent moves to indicate that the issue is one for the Scottish Government to resolve there have equally been no formal reassurances that all claims paid to date are safe and that outstanding claims and new phase 2 claims will be honoured.

#### **Potential Implications for Renfrewshire**

- 4.8 Renfrewshire Council have received ESF grant payments of £2,730,112 towards Phase 1 activities, with £2,224,299 still to be paid. At the moment all claims are being checked and verified in the usual way but will not be paid until the issues with the EC have been resolved.
- 4.9 It is too early to say what the impact on the Phase 2 programmes currently underway will be and whether the claims and payment processes will remain or will change. Renfrewshire Council are one of only a few applicants with full ESF approvals for Phase 2 and delivery is going to plan.
- 4.10 The Phase 2 ESF programme relies on receiving £4,370,975 ESF grant income to the Council for the delivery of employability services. Any reduction in funding would affect staffing levels, programme delivery and job creation through traineeships, internships and wage subsidies.
- 4.11 As a precaution all non-essential spending has ceased across the ESF programmes in Renfrewshire until the issues of non-compliance have been addressed and claims are being paid. This means that all ESF supported staff vacancies have been frozen, no further contracts for ESF training or support will be commissioned and job creation measures have ceased (where ESF is a key funder of this).

- 4.12 In 2018 the Economic Development Service undertook a full-service review and redesign in light of the changes in available funding. Should there be any ongoing issues with ESF compliance, and it becomes clear that a reduction in funding support is likely, then a further service redesign and downsize would need to be undertaken as an urgency.

## 5. Phase 1 EU Structural Funds 2014 -20 Programme

- 5.1 Renfrewshire Council were successful in securing EU funding in Phase 1 of the Programme and submitted claims as follows for the 2015-18 period for the delivery of employability and business development services:

### 5.1.1 Youth Employment Initiative:

ESF Programmes	Total Cost of Programme Delivery	ESF Grant	Council Match Funding	Comments
Youth Employment Initiative (YEI) (Feb 2015 – Sep 2018)	£5,290,155	£3,517,042	£1,773,113	YEI was a 3 year programme only and closed at the end of Sep 2018
<p>The YEI programme was used to augment the Councils work on youth unemployment.</p> <p>YEI funding was used to support employability services to 1,385 young people aged 16-29 with 479 moving directly into mainstream employment.</p> <p>In addition, 375 people moved into paid jobs/ traineeships/internships which were subsidised by ESF support (139 traineeships and 64 internships and 180 wage subsidies).</p> <p>Job creation was a key element of this application.</p>				

### 5.1.2 ESF Pipeline Programme

ESF Programmes	Total Cost of Programme Delivery	ESF Grant	Council Match Funding	Comments
ESF Pipeline Programme Phase 1 (Apr 2015 – Sep 2018)	£2,681,032	£1,137,988	£1,543,044	ESF Pipeline Programme to be delivered over 2 phases: Phase 1 April 2015-Dec 2018
Estimated claim for Oct-Dec 2018	£1,037,391	£299,381	£738,010	Phase 2 Jan 2019 – Dec 2022.

The Phase 1 ESF Pipeline Programme primarily supported unemployed people aged 30+ with multiple barriers to work. During Phase 1: 1,606 people were supported through Council employability services co-funded by ESF; 474 moved directly into work and 264 secured qualifications.

### 5.1.3 Poverty and Social Inclusion Programme (ESF)

ESF Programmes	Total Cost of Programme Delivery	ESF Grant	Council Match Funding	Comments
Poverty and Social inclusion (2015-2022)	£977,916	£391,165	£586,751	Programme was approved in 2015 but is mainly being delivered 2019 – 2022. No claims submitted as yet.
The PSI ESF fund supports customised approaches to inclusion and poverty. No claim has been made as yet for the ESF Poverty and Social Inclusion Fund, but activities have included Project Search programmes (supporting young people with Learning Disabilities).				

### 5.1.4 ERDF Programmes

ERDF Programmes	TOTAL Cost of Programme Delivery	ERDF Grant	Council Match Funding	Comments
Growing Businesses in Renfrewshire	£880,033	£352,013	£528,020	This application covered Renfrewshire, East Renfrewshire and Inverclyde
Compliance Costs	£62,438	£24,976	£37,462	
Business Growth Renfrewshire	£203,704	£81,482	£122,222	
ERDF supports the Council's services to local businesses. Support from ERDF contributes to Business Development Grants, staffing, Workshops and Advisory Support Services.				
In Phase 1, 194 companies were supported through grants and workshop support.				
The Growing Businesses in Renfrewshire application included Renfrewshire, East Renfrewshire and Inverclyde. The figures for Renfrewshire Council alone are £712,329 total costs, £284,932 ERDF and £427,397 match funding.				

- 5.2 Renfrewshire Council have received ESF grant payments of £2,730,112 for Phase 1 activities with £2,224,299 still to be paid. At the moment all claims are being checked and verified in the usual way but will not be paid until the issues (referred to above) with the EC have been resolved. ERDF claims are meantime being paid in full.

## **6. Phase 2 EU Structural Fund 2014-20 Programme**

- 6.1 Following the Council approval of a further Invest in Renfrewshire Programme at Leadership Board on 20<sup>th</sup> June 2018 work was undertaken to develop new (Phase 2) EU applications to be delivered from 2019-22.
- 6.2 With the closure of the YEI programme (only available for 3 years) all employability services would be supported through the Employability Pipeline Programme. This programme would therefore be an all-age service.
- 6.3 Renfrewshire Council had been offered an indicative grant award for the whole 2014-20 programme from the Pipeline programme. Phase 1 of the programme had been delivered broadly to plan and the Phase 2 allocation was available for the 2019-22 period. This allocation was much smaller than the levels required by the Council. However, the Council were successful in securing a larger share of the EU funding of an additional £2M (approx.)

### **6.3.1 ESF Pipeline Programme**

ESF Programmes	Total Cost of Programme Delivery	ESF Grant	Council Match Funding	Comments
ESF Pipeline Programme Phase 2	£8,741,949	£4,370,975	£4,370,975	The ESF intervention rate for Phase 2 increased to 50% (rather than 40% in phase 1)
The Phase 2 ESF Pipeline Programme aims to support 4,400 people in Renfrewshire over the next 4 years with over 1,000 moving into employment.				

### 6.3.2 ERDF Programme

ERDF Programmes	TOTAL Cost of Programme Delivery	ERDF Grant	Council Match Funding	Comments
Growing Businesses in Renfrewshire	£658,000	£263,000	£394,800	This application covered Renfrewshire, East Renfrewshire and Inverclyde
Compliance	£100,382	£40,152	£60,230	
Business Growth Renfrewshire	£614,769	£245,907	£368,862	
The second Phase of ERDF further supports the Council to assist local Businesses. Support from ERDF contributes to Business Development Grants, staffing, Workshops and Advisory Support Services. Whilst the Growing Businesses in Renfrewshire application includes Renfrewshire, East Renfrewshire and Inverclyde, the Total Cost of Delivery for Renfrewshire alone is £378,000 with ERDF grant support of £151,200.				

- 6.4 The Phase 2 figures stated above could change following the final resolution of the EU compliance issues. If this happens a further report will be presented to Board.

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### Implications of the Report

1. **Financial** – as detailed in the main body of the report, whilst there has been an indication that the current issues being experienced are for the Scottish Government to resolve with European colleagues, should this not be achieved, categoric reassurance has not been provided at this stage that there will be no knock on financial implications for local authorities as Lead Partners. This uncertainty in respect to exposure to any potential financial risk that may or may not ultimately emerge, applies to claims both for the Phase 1 programme and potentially has implications for the new phase 2 programme. As detailed in the report, in relation to the phase 2 programme, precautionary actions are being put in place in the interim to mitigate against this risk.
2. **HR & Organisational Development** –A full restructure of Economic Development was undertaken during 2018 and the new staffing structure (for phase 2 of the EU programmes) is complete.
3. **Community Planning**  
  
**Jobs and the Economy** –The report outlines funding to grow and support the Renfrewshire Economy and to support people into work.

4. **Legal** – None
  5. **Property/Assets** – None
  6. **Information Technology** – None
  7. **Equality & Human Rights** -  
The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report.
  8. **Health & Safety** – None.
  9. **Procurement** – there will be a range of smaller services procured over the next 4 years with the support of colleagues in procurement.
  10. **Risk** – ESF and ERDF applications are not approved yet however the structure and service outlined in the report have anticipated a much smaller allocation than we expect to receive and so risk is minimised. In addition the new service will commence 1<sup>st</sup> October 2018 and the EU funding will be confirmed at that point.
  11. **Privacy Impact** - None
  12. **Cosla Policy Position** - Not applicable
  13. **Climate Risk** - Not applicable
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### **List of Background Papers**

- (a) Council Budget Report, 2<sup>nd</sup> March 2018
  - (b) Invest in Renfrewshire Future Funding and Services, Leadership Board 20<sup>th</sup> June 2018
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AM/RC

August 2019

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