

Balance of Competences Review Scottish Government Response

Cohesion policy

1. To what extent have UK places, companies and workers benefited or not benefited from EU structural funds?

The strategic frameworks behind the Structural Funds have given direction to investments and structural reforms that delivered significant and sustainable economic and social outcomes in the Scottish regions and addressed their different challenges and opportunities. In the 2007 – 2013 programme ERDF and ESF have benefitted:

- *Places:* For example, 10 regional roads and 6 ports in the highlands and islands of Scotland, and 55 urban regeneration projects.
- *Companies:* Provision and improvement of infrastructure, but also skills, R&D, and the parallel development of business infrastructure and expertise in trading partners.
- *Workers:* Over 250,000 individuals, mostly from marginalised groups who do not benefit as much from mainstream provision, received skills and training during the current period.

North Lanarkshire Working Skill's Pipeline - The project was approved in 2011 for two years with £3.4 million of European Social Fund grant. The project aimed to assist over 4,000 individuals (most of whom were previously unemployed) and it is anticipated that around 1,500 will move into employment, 350 into education/training and 2,000 will exit the project with a full or partial qualification.

Open Innovation Project - Through the Interreg IVB North West Europe funded Open Innovation Project, the City of Edinburgh Council has brought together a partnership of local governments, universities, business support services and other public bodies across the UK, France, Germany, Ireland and Belgium. Project achievements to date in Edinburgh are 22 new jobs created, 19 new business start-ups, 50 new products or services, and 96 activities and events run.

Innovative Medicine Initiative (IMI) European Lead Factory Programme - This pan-European programme aims to speed up the development of new drugs. Scotland is at the heart of the programme with the establishment of the project's European Screening Centre being based at BioCity Scotland and Scottish Universities Life Sciences Alliance's (SULSA) scientists, through the University of Dundee, carrying out essential programme screening and medicinal chemistry activities for the project. It is anticipated that this will create up to 40 new jobs and direct investment of £16.3 million will be received from the European IMI programme.

Whitlawburn Community Energy Project - This project involves a grant of £2.65 million to West Whitlawburn Housing Co-operative (WWHC) to deliver heat and hot water to residents through a biomass fuelled district heating network. It will lower tenants' heating bills, improve heating control, and reduce fuel poverty; saving each household around £780 per year. The project will also save around 2,500 tonnes (42%) of carbon per annum.

The Princes Trust – Strategic Skills Pipeline - This project consists of core programmes which help disadvantaged young people to build their confidence, increase their motivation and develop tools to improve their lives. The programme will assist 2,500 young people, into employment, education or training. Around 1,200 young people will gain a qualification. The total cost of the project is £4.5 million, of which £1.8 million is a grant from the European Social Fund.

2. Are the types of activity covered by the structural funds and the other funds outlined in this paper more appropriately funded at EU, national or regional/local level? Should all Member States or regions receive structural funds in future? If not, what should be the criterion?

The Scottish Government believes activities funded by structural funds benefit best from a balance of different types of funding. EU Funds are important tools in helping connect national and local policies with a global perspective, and they are therefore important to all regions. However, the Scottish Government recognises that EU Funding provides a more significant boost while regions are developing; many projects in Scotland would not have happened without them.

Structural Funds help Member States and regions implement EU policies that will help make the EU a more coherent and cohesive single market, therefore it is likely that all Member States will need encouragement and assistance with implementing EU policies both directly or indirectly.

3. What is the right balance between strategic guidance at EU level, Member States management and control of the funds and regional or local identification of needs?

The single market is only as strong as its weakest link. It is important to have common goals and strategies across the single market to strengthen its competitiveness, both internally and internationally. Projects are inevitably local or regional in nature, but the combination of agreed strategic direction and local participation is what enables regions to become capable of taking part in the single market.

4. Do all parts of cohesion policy provide equal value for money? Are different approaches required for different funds and different geographies?

There is potential for tension in Cohesion Policy, in wanting to both achieve EU goals and objectives and wanting local delivery, but both can provide value. This makes it important to get the type of activity right for the desired outcome, rather than only focusing on a type of approach or a type of region.

5. To what extent should the funds be targeted at less developed areas and disadvantaged groups of society rather than being available as sources of investment for economic development across all areas?

Answered above – the funds clearly have more of an impact in less developed regions because of the scale of funding and the generally recognised catch-up effect, but they remain powerful levers for innovative policy changes in all regions.

6. How effective in your view is accountability and financial management of the funds outlined in the paper? What further steps if any might be taken to provide increased assurance for EU taxpayers?

The audit and compliance capability and capacity of Member States varies. The Scottish Government considers it would be useful to harmonise national audit

standards across the EU so that the more developed national audit regimes could assume their own responsibility for EU audit and compliance. This would bring the subsidiarity principle to bear on EU audit and avoiding the need for the EU audit layer in some Member States.

7. What are the main barriers to accessing EU funds? What might be done to overcome these?

The Structural Funds are complex instruments. The Scottish Government considers this is necessary to ensure they adequately address both regional and EU policies.

8. What practical steps could be taken to reduce the administrative burdens in getting funding from EU programmes?

The Commission's simplification agenda already contains many useful ideas, such as simplified costs, better advice and guidance to applicants, and integration across the funds. The further integration of funds in future, including the detailed rules and interpretations that currently remain separate would be welcome in future. As above, it may be worth exploring subsidiarity in audit, removing the need for the EU to audit Member States that are already capably auditing their own operations.

9. How can the local or regional dimension best be reflected in EU policy-making?

Strong representation of regions is important so that all of Europe remains competitive. The EU is broadly aware of this, and is increasingly building in consideration of regional concerns via the European Parliament. The Scottish Government continues to engage constructively with UK colleagues on Cohesion policy, and the recently concluded round of negotiations has benefitted from this collective input into the UK position.

Trans-European Networks

1. In your view to what extent have the TENs supported or promoted cohesion, interconnection and interoperability of national networks and access to networks across the EU? Has this been in the UK's national interest?

Trans-European Energy Networks Regulation (TEN-E)

The Scottish Government supports the new Trans-European Energy Networks Regulation (TEN-E), viewing it as a key legislative instrument to accelerate improved energy interconnection and greater alignment of markets. Its centrepiece is the power to designate EU transnational 'Projects of Common Interest' (PCIs) which can then benefit from accelerated permit granting, streamlined regulatory measures, and potentially EU financial assistance. PCIs will have access to the €5.1 billion Connecting Europe Facility fund that will provide financial support both for feasibility studies and physical works.

In Scottish terms, this will provide particular incentive for both the 'ISLES Project' (see box) and 'Northconnect', which is looking to develop a High Voltage Direct

Current interconnector between Norway and Scotland. The Scottish Government views both projects as important to furthering future interconnection and alignment of markets and as such welcomes the further funding and greater profile that the TEN-E regulation is helping to deliver directly, as well as further the wider aims across EU Member States.

Irish Scottish Links on Energy Study (ISLES)

This was a €2 million project funded through the EU supported Cross Border Cooperation (CBC) Programme to facilitate the development of offshore renewable energy sources and renewable energy trade between Scotland, Republic of Ireland and Northern Ireland. It assessed the feasibility of creating an integrated offshore transmission network connecting the projects' sites with onshore grids. An ISLES 2 project, again funded through the CBC, building on work accomplished in ISLES commenced in 2013 and is expected to report on its findings in 2015.

Trans-European Networks – Transport (TEN-T)

In supporting the free movement of people and goods throughout the EU, transport is central to the realisation of the single market. TEN-T supports this aim, and improved EU cohesion, by increasing levels of standards and interoperability on key strategic routes. From a Scottish and UK perspective, one key aspect of TEN-T is in seeking to improve standards in other Member States up to those typically already employed in the UK, though it is worth noting that standards only apply to projects receiving funding.

The Scottish Government supports the aims of the revised TEN-T and Connecting Europe Facility (CEF), which align well with our own ambitions to reduce emissions and congestion. Scotland is well represented on the Comprehensive network across the length and breadth of the country including island routes. Core network representation is limited to the nodes of Glasgow and Edinburgh, the routes connecting those nodes to each other, to English nodes and to Northern Ireland.

The original revised TEN-T proposals raised issues around subsidiarity and EU competency creep in the area of investment priorities and planning, which is devolved to Scottish Ministers. While negotiations have led to a compromise, this illustrates the potential appetite for greater EU influence on national and regional transport policy.

Trans-European Network - Telecommunications (eTENS)

The Scottish Government is supportive of the European Commission's overarching Digital Agenda for Europe objectives and believe that the e-TENS regulations can make an important contribution towards achieving these.

The wide-ranging nature of eTENS objectives aligns closely with Scottish Government policy, as set out in [Scotland's Digital Future](#). We are making a substantial investment, not only in the deployment of telecommunication networks themselves, but also to support the delivery of digital public services to accelerate take up, while ensuring that citizens and businesses alike have the skills required to

enable them to take advantage of these services. A comprehensive and co-ordinated strategy is essential to bridge the digital divide across Scotland and the EU.

2. Are the types of activity covered by the TENs more appropriately funded at EU, national or regional/local level?

Trans-European Energy Networks Regulation (TEN-E)

The funding available under TEN-E at EU level fits with the aims of greater interconnection and alignment of markets between Member States. In the case of the ISLES project, regional (INTERREG) funding has supported the project to its current stage, and has played a crucial role in its delivery. The EU-level TEN-E funds provides an opportunity for the project to be taken further towards delivery in the future, particularly in terms of the greater profile attached to projects that are recognised at this level.

Trans-European Networks – Transport (TEN-T)

We believe there is a role for TEN-T funding, particularly to resolve cross-border missing links and to accelerate the development of alternative fuels and telematics applications, areas with the potential to benefit the entire EU. As most Connecting Europe Facility (CEF) funding will be restricted to the Core network, many transport infrastructure projects, particularly on the Comprehensive network, will continue to require national or regional funding. There is, however, scope to accelerate projects through the new, innovative financial instruments within the CEF.

Scottish funding success itself has been limited to date. Funding calls are competitive and restricted to the TEN-T network, meaning that Scotland and the UK do not receive a share of the total programme but instead must demonstrate project maturity, relevance to the call and have a full financing package in place. This can often reduce the window of opportunity to capitalise on funding.

Trans-European Network - Telecommunications (eTENS)

The scale of investment required to deliver the types of future-proofed telecoms networks that underpin both Scottish Government and EU digital policy objectives will require funding support at all three levels. The Scottish Government and Scottish local authorities are making a substantial investment in broadband infrastructure through our Step Change programme, further enhanced by funding from the UK Government. EU funding is another important component. However, in practice, it has often proved difficult to fully utilise EU funding to support infrastructure roll-out.

The proposed support for core service platforms under the Connecting Europe Facility (CEF) will enhance aspects of the digital agenda, but the fact that the facility seems unlikely to support significant infrastructure roll-out across the EU will undoubtedly have an impact on the pace at which broadband networks will be deployed. We believe this will have a negative impact on the achievement of the EU's wider digital targets. It may also impact Member States' ability to trial more innovative financial models.

Industrial Policy

1. What do you see as the major advantages or disadvantages of an EU-wide industrial policy approach?

The world is increasingly globalised, dominated by a small number of significant and substantial trading/economic blocks where multi-national corporations exert more influence than many national governments. For nation states, even significant states such as the UK, to sustain influence and access to economic opportunities they need to be part of an effective economic block. For such blocks to function effectively and efficiently they need to operate collaboratively on those issues which facilitate clarity in the priorities and ambitions of the block.

An EU industrial policy therefore articulates shared issues and how these can be addressed collectively. For example, the fundamental aim of EU industrial policy of improving competitiveness through initiatives on intellectual property rights, legislative simplification and integrated approach to industrial research and innovation highlight areas where collaboration between nation states could facilitate, simplify and accelerate economic activity. Whilst initiatives of this nature could be pursued at the nation state level, it is unlikely the impact of an individual nation state would be as significant or effective. Therefore EU Industrial Policy can and should influence the industrial policy of individual member states

2. How can the EU approach and the strategies of individual member states be better aligned? Do you consider it appropriate that they are aligned?

There is little point having an EU industrial policy if it doesn't effectively reflect, and to some degree reconcile, Member States' individual and collective ambitions. Equally, Member States must adopt and reflect EU industrial policy in their own strategies to save significant wasted effort and resources at EU and Member State level.

The simplest and probably most effective way to achieve and maintain alignment is through clarity and simplicity in policy, regular communication, and keeping the policy as stable as possible. This would avoid confusion and frustration amongst the actors who are affected by the policy and/or have to deliver it.

The Vanguard initiative

The Scottish Government is committed to working in partnership with other EU regions to help influence and deliver the industrial structures to contribute to the EU's ambition to increase industry's contribution to GDP from 15.6% to as much as 20% by 2020.

Scotland has joined a group of EU regions in the 'Vanguard Initiative for New Growth by Smart Specialisation' launched on 8 November 2013 which brings together leading industrial regions in Europe to provide a positive impetus to interregional cooperation in order to shape the industry of the future. This initiative supports the wider application and visibility of smart specialisation principles with the aim of boosting EU competitiveness and future growth.

3. Where, in your opinion, have EU actions had a positive effect on UK industry? What leads you to this conclusion?

The EU focus on research and innovation has encouraged, funded and facilitated research and innovation collaborations and efforts by Scottish and UK Universities to a scale and degree unlikely to have been realised without EU support and focus. Scottish and UK universities might have collaborated more with non-EU partners if EU collaborations not been open to them. But the Scottish Government considers that, without the EU Industrial policy focus on research and innovation, it is likely there would have been fewer collaborations in total. EU institutional cohesion, funding and work to complete the single market will all have given UK institutions common ground that will have assisted collaborative research and innovation.

4. Where, in your opinion, has EU action had a negative effect on UK industry? What leads you to this conclusion?

EU industrial policy has been less effective than hoped for in the conversion of high level academic research into industrial activity, jobs and economic growth. This is borne out by lower levels of SME involvement in Framework programmes relative to the scale and extent of university and academic involvement in these programmes.