



REPORT TO: MORAY COUNCIL ON 27 NOVEMBER 2019

SUBJECT: EUROPEAN STRUCTURAL INVESTMENT FUNDS

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

- 1.1 To provide Council with an update on Council led European Structural Investment Funds (ESIF) projects and seek approval for the recommendations.
- 1.2 This report is submitted to Council in terms of Section II (A) (2) of the Council's Scheme of Administration relating to long-term financial plans.

2. RECOMMENDATION

2.1 It is recommended that Council:-

- (i) **note the progress for the Employability and Poverty & Social Inclusion projects;**
- (ii) **homologate the decision to forward fund as set out in paragraph 3.6 of the report;**
- (iii) **consider refraining from accepting the current offer of grant for the Employability Challenge fund and the Poverty and Social Inclusion Challenge Fund when received until there is further clarity on the implications of the recent changes;**
- (iv) **delegate authority to the Head of Growth & Development Services in consultation with the Chief Financial Officer and Chair of this committee to agree if and when the Challenge Funds can be opened once there is greater clarity on risk, such agreement only being given if they are satisfied that opening these funds falls within acceptable parameters as informed by the discussion at (iii) above, noting that if this is in doubt a further urgent report will be submitted for consideration; and**
- (v) **agree that for the Challenge Fund projects any third sector organisation claims can be paid in advance of receiving monies from the Government.**

3. **BACKGROUND**

- 3.1 **Employability** – The project aims to move out-of-work people with barriers towards and into work. Participants must have at least two barriers to be eligible and the Scottish Government have supplied a list of 25 defined barriers including: living in a rural area; being ex-armed forces; having mental health issues; being a primary carer of an older person etc.
- 3.2 **Phase I** of the project was approved by this Committee on 19 January 2016 (para 7 of the minute refers) and ran from Feb 2017 to the end March 2019. The project was delivered by two partner organisations. Elgin Youth Café - Development Group who provided work experience and training in their catering facility to out-of-work young people and Social Enterprise Academy who provided training courses to out-of-work people aimed at helping them to find work in the Social Enterprise and Childcare sectors. They provided their own 50% match funding to the projects.
- 3.3 Moray Council oversaw the projects ensuring that they meet with the ESIF criteria. A part time administrator was funded by Moray Council and ESIF. The phase 1 project worked with 49 out of work people, 40 of whom finished their training and received a qualification and 1 has moved onto employment. The project was working with people who have many barriers to employment so they are more likely to be moved closer to work rather than into work.
- 3.4 The original targets were that 84 out-of-work people would be supported with 33 finding work, 67 gaining a qualification and 37 would move onto further education / training. Through the Governments Notification of Change system updates were provided to the Managing Authority of the changes within the outputs and results due to the fact that several large organisations originally anticipated as participating did not proceed as delivery bodies due to lack of match funding and a drop in the unemployment rate. Also the outputs and results were affected by the two delivery organisations as they were supporting those who are furthest removed from the labour market. All these changes outlined above were agreed by the Managing Authority. An update on the performance of phase I of the project was provided to Council on 28 June 2018 (paragraph 15 of the minute refers)
- 3.5 **Interruption of European Social Fund Payments** – The Scottish Government advised all Lead bodies on 24 May 2019 that all payments of claims have been suspended by the European Commission to the Scottish Government due to audit reasons which they hoped to solve by late 2019.
- 3.6 As the interruption of payment relates to Employability Projects Challenge Fund it has affected the 2 delivery bodies from phase I - Elgin Youth Café and Social Enterprise Academy. Although no errors or issues have been raised by the Scottish Government for this project, the last claim paid was for the period to 30 June 2018. In discussion with the Council Leader, the Chief Officer of Finance and Depute Chief Executive (Economy, Environment and Finance) agreed to authorise payments to be made to the third sector delivery agents in advance of claims to the Managing Authority to avoid the third sector

organisations suffering cash flow problems on the view that as Lead Agency the Council was better placed to manage this issue. The total sum paid in this way was £19,390.

- 3.7 It should be noted that all other authorities in Scotland agreed to forward fund in this way to third sector delivery agents following the interruption of payments and this was a clear expectation of the Scottish Government. The reason for it is that the third sector organisations time line between spending money, being able to claim defrayed expenditure and receiving any funds under normal circumstances is a minimum of over 3 to 4 months and with the present system are more likely to be up to a year or more.
- 3.8 The Scottish Government advised Moray Council officers on 5 November 2019 by email that the reason for the Employability phase 1 claims being suspended was that the European Commission has identified an issue with projects which contain multiple cost models. The Employability phase I project contained multiple costs models (staff costs plus 40% model mixed with an actual staff costs model), although this was agreed at the time by the Scottish Government. The outstanding claims come to £23,784. By letter dated 14 November authorities were advised that the “pre-suspension” phase has now moved into the next phase of suspension. The timeline for resolution of the audit issues remains unclear.
- 3.9 **Phase II** of the project was approved by Council on 28 June 2018 (paragraph 15 of the minute refers) and consists of 2 elements, a Moray Council led operation and a Challenge Fund. The project started in July 2019 with an operational end date of 31 March 2023 and financial end date June 2023. For phase II no claims have been submitted yet, as the systems does not allow any further submissions until the last claim has been authorised. The Council led part includes three different elements:
- 3.10 **Moray Training** - beneficiaries will be part of a small training squad who are fully supervised by an experienced training supervisor working on a diverse range of rural skills for the private sector and the Moray Council, including tasks such as pathway construction and maintenance; small bridge repairs and maintenance; repairs for flood damage; fence construction and repairs; installing benches, gates and signs; and stone walls repairs. Beneficiaries will also under take regular job searches and receive support to apply for jobs.

Activity Agreements. This will provide a tailored learning programme for young people aged 15-19 years, who are not ready for full-time learning, training or work and are within stage 1 or 2 of the employability pipeline. The young people referred to the programme will have a range of barriers to progressing with their pathways, this includes additional support needs, care experienced, young offenders and mental health issues.

A large number of organisations from the public, private and third sector are signed up as Activity Agreement providers and there is a wide range of tailored opportunities and accredited qualifications. The learning activities on offer support young people with their personal development and skills for work.

Learning Centre Advisors will provide digital support to job seekers and claimants of Universal Credit. This will be done through 1-1 appointments and group support at Job Clubs. Basic computer skills are also offered and aimed at helping people in their job search. The Learning Centre will offer clients accredited training and support to apply for ITA (Independent Training Account) funding to cover these costs. Accredited courses will include Computer & Online Basics; PC Passport Unit 3: Internet and Email and ECDL.

- 3.11 The proposed annual targets for the Employability Phase II have been set cautiously and are based on experiences. They are as follows:

	Challenge Fund projects	Activity Agreements	Learning Centres	Moray Training	Total
No. of participants	72	70	150	30	322
No. entering employment	26	12	30	15	83
No. entering employment/education/training	28	24	80	5	137
No. gaining a qualification	52	20	80	25	177

- 3.12 For the Employability Challenge Fund, the Government has confirmed that the revised offer of grant has now been approved and that we will receive the offer of grant for the Moray Employability Challenge Fund shortly.
- 3.13 **Poverty & Social Inclusion** – The project provides free and confidential help and advice to people with money, debt or benefits problems. The ESF rules state that the clients must be from within one of three types of household: workless households; low income households; or single parent households.
- 3.14 **Phase I** of the project was approved by Council on 12 October 2016 (para 8 of the minute refers) and ran from February 2017 to the end March 2019. The project was funded 50% by ESF and 50% by Moray Council. The targets were that 600 people registered with the project, resulting in 540 have improved money management skills and for 240 debt is no longer a barrier to social inclusion.
- 3.15 The project helped 606 eligible clients in Moray. Of those 570 were deemed to have improved money skills after being helped by the project and 275 were deemed to have had their debt barrier removed. The ‘debt barrier’ removed only included people whose financial situation had improved by at least £1,000 a year after being helped by the project. In total during phase I, the Moray’s clients benefitted from £2,934,922. The majority of this money was an increase in clients’ benefits after receiving advice and help from the project.
- 3.16 For Poverty & Social Inclusion phase I there are no outstanding claims.

- 3.17 **Phase II** of the project was approved by Council on 28 June 2018 (paragraph 15 of the minute refers) and consists of 2 elements: a Moray Council led operation and a Challenge Fund. The project started in April 2019 with an operational end date of 31 March 2023 and financial end date June 2023. The Council led project will work with participants who have single and multiple debts. Advisers complete a full Financial Statement with the client and discuss budgeting along with maximising income and minimising outgoings. The adviser's role is then to consider and discuss all relevant debt solution options. These range from setting up repayment plans through an informal repayment plan such as the Debt Management Plan or a formal statutory solution, the Debt Arrangement Scheme (DAS), arranging moratoriums (break in payments) or priority payments (such as rent arrears, Council Tax arrears, Mortgage and secured debt arrears) and bankruptcy. DAS and bankruptcy are both statutory solutions covered by legislation and only an approved Money Adviser is able to provide this service and complete applications. The service role is to assist the client to regain control of their finances and where possible remain in their home.
- 3.18 The proposed annual targets for the Poverty and Social Inclusion phase II project have been set cautiously and are based on experiences. They are as follows:

	Challenge Fund projects	Income Maximisation project	Money Advice Project	Total
Number of clients worked with	80	300	140	520
No. with "improved financial skills"	64	270	80	414
No "no longer affected by debt"	30	120	50	200
No. moving onto jobs/education/training	8	10	10	28

- 3.19 For phase II the 6 months financial claim with progress report on activities will be submitted shortly. The Government has approved the Challenge Fund for the Poverty and Social Inclusion project, which provides an opportunity for third sector organisations to deliver services. However the process for opening this fund hasn't started yet as we were waiting for further guidance from the Government.

IMPACT OF COMPLIANCE CHANGES

- 3.20 The updated guidance for the Challenge Funds have now been issued alongside with a check list and a named officer to verify the processes from an audit perspective before opening the Challenge Funds.
- 3.21 At the end of September 2019, the Government advised that they had revised their Management Control system with the National Rules having undergone some major changes. In terms of Moray's Employability and Poverty & Social Inclusion projects, the most significant change is that any underperformance on targets may incur a fine, if there is not a good reason for it. If only 60% of

the target is reached it will result in a fine of 5%, at 50% a 10% fine and less than 50% a 25% fine. It is not clear if any of the new rules will be applied retrospectively i.e. for phase I of ESIF or only from the point when they were issued and officers are still seeking clarification on these rule changes. Also whilst both projects had any notifications of changes in terms of targets approved and passed audit visits by the Managing Authority, until further clarification is received there remains a risk that the council is exposed to fines which were not anticipated when the programme began as the Employability project significantly underperformed in reaching its targets during phase I.

- 3.22 To mitigate risks, further advice has been sought from the Managing Authority regarding the potential postponement of the Challenge Funds. Their advice is as Moray Council's Phase 2 extensions have already been approved, which included a re-profile of both expenditure and targets; any delay to commence delivery will likely result in our realignment forecasts being breached and may end up with the situation that we will fall behind expected achievement. Any delay of the start of our Challenge Funds will impact on our ability to meet the current expenditure, output and result targets approved for the phase 2 extensions. This should be revised through a change request as it may attract penalties if outputs are not met – in accordance to the National Rules.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The Council led ESIF projects will contribute to achieve the Corporate Plan priority to promote economic development and growth, also the LOIP priority of a growing and sustainable economy and in particular to the focus on targeted approaches to those furthest from the job market.

(b) Policy and Legal

The Council considers support for economic development issues on their merits, against the objective to facilitate sustainable economic growth and the desired outcomes of the Ten Year Plan and Corporate Plan. For any Challenge Fund agreements with outside organisations as delivery agents for either Employability or Poverty & Social Inclusion projects Legal section will be consulted.

(c) Financial implications

For phase I & II of the Employability Project the total grant award in principle is £1,742,174.17 with an operational end date of 31 March 2023 and financial end date June 2023. It consists of £717,172.41 for Council led operation and on cost in phase I at 50% intervention rate & for phase II at 80%. For phase I & II the Challenge Fund is £1,025,001.76 with a letter of grant offer for phase II being received on 1 November 2019.

For phase I and II of the Poverty & Social Inclusion Project the total grant award is £1,455,441 with an operational end date of 31 March 2023 & financial end date June 2023. It consists of £953,406 for operation i.e. for Council staff from Money Advice and Income Maximisation teams

and on cost in phase I at 50% intervention rate & for phase II at 80% intervention rate with a phase II Challenge fund of £502,035.

(d) Risk Implications

All possible care is taken across departments delivering externally funded projects to mitigate any risks and management systems have been evolving to avoid any penalties. Whilst all funding is processed under the guidance of the Managing Authority and both projects have passed any of the audits which the Government has undertaken so far, however from past experience, amongst auditors they can have different opinions and interpretation of rules and regulations which can subsequently present a financial risk to the Council.

For the Employability and Poverty & Social Inclusion projects, services have set their targets cautiously and based on their experiences. Ongoing monitoring will allow adjusting the targets if it's required through the Governments Notification of Change system. As part of the claims, evidence is provided on all aspects of the activities.

As outlined in para 3.21 and 3.22 of this report, with the latest introduction of fines for any underperformance in targets, it potentially presents a high risk to Council, in particular if payments are made in advance to third sector organisations to overcome cash flow problems. The Challenge Funds for phase I and II for Employability is £1,025,001.76 and for Poverty and Social Inclusion £502,035.

The overall total allocation for both projects for operations and Challenge Fund is £3,197,615. Given the current and expected future state of the Council reserves, if we fail to receive the expected grant then it could have a significant impact to Council's finances.

For activities delivered by outside organisations under the Challenge Funds, payments will only be made after all required evidence has been received. In the event that Scottish Government Managing Authority and / or Audit Authority decides to apply any fines to activities by outside organisations, the Council would be entitled to pass any fines onto them, however in the past as a matter of policy the Council has not done so as the impact for third sector bodies would potentially be sufficient to render their future operations unsustainable.

To mitigate any risks for the Challenge Fund, the Managing Authority has offered the support of a named officer to verify any processes, which are planned for these funds. However, the opinion of the named officer as to compliance is not determinative.

The risk environment for these funds is not static and this presents financial challenges for the Council. However, to date the Council has viewed the funding which can be leveraged in and the local benefits provided as more than outweighing this financial risk.

(e) Staffing Implications

No staffing implications arising from this report.

(f) Property

No property implications arising from this report

(g) Equalities/Socio Economic Impact

For the ESIF Employability and Poverty and Social Inclusion projects a named person from the Council is required to be responsible for monitoring equalities. For phase I & II the Equal Opportunities Officer carries out the task. The projects contribute to tackling inequalities in our communities.

(h) Consultations

The Depute Chief Executive (Economy, Environment and Finance), the Head of Economic Growth and Development, the Head of Financial Services, the Legal Services Manager, the Equal Opportunities Officer, Head of Housing and Property and Tracey Sutherland, Committee Services Officer have been consulted and comments received have been incorporated into the report

5. CONCLUSION

5.1 ESIF funding for phase I and II of the Council led Employability and Poverty and Social Inclusion projects has made a significant contribution to support those who are furthest removed from the labour market and help people with money, debt or benefits problems. It has directly contributed to tackling inequalities in our communities.

5.2 However whilst ESIF funding has enabled provision of these services, it does come with a high risk factor as recently experienced with the suspension of claims and significant changes in rules.

Author of Report:	Reni Milburn, Economic Growth & Regeneration Manager
Background Papers:	Proposals, correspondence and documents on file in Environmental Services, Economic Growth & Regeneration Section

Ref: