

FINANCE AND CONSTITUTION COMMITTEE

FUNDING OF EU STRUCTURAL FUND PRIORITIES IN SCOTLAND, POST-BREXIT

SUBMISSION FROM SHETLAND ISLANDS COUNCIL

Introduction

Shetland Islands Council welcomes the opportunity to contribute to the Committee's Inquiry into the funding of EU Structural Fund priorities, post-Brexit. Economic growth is a fundamental priority of our Council and we seek to ensure that growth is inclusive, and promote developments which bring benefits to all communities in Shetland. The development and implementation of appropriate funding mechanisms post-Brexit is of significance to an island community like Shetland if we are to deliver on the Community Planning Partnership's vision of Shetland being a place "...where everyone is able to thrive; living well in strong, resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges".

The Shetland Islands are impacted on by a range of factors arising from permanent geographic challenges – these include remoteness, peripherality, super-sparsity of population, and distance from markets leading to inflated costs of doing business and delivering services. These geographic challenges lead to a range of economic and social inequalities and a top-down, one-size-fits-all approach from national programmes rarely work in the periphery. A key measure in the Islands (Scotland) Act 2018 is to require everyone who makes or designs new policies, strategies or services to consider how these will impact on islands, therefore we would expect that this principle will be respected in the development of post-Brexit regional policy and funding mechanisms. According to the Islands Act, a National Islands Plan will improve outcomes for island communities including: increasing population levels, improving and promoting sustainable economic development; improving transport services and digital connectivity; and reducing fuel poverty. Access to post-Brexit structural funding will be instrumental for islands to achieve these outcomes.

Core approach

1. How should Scotland's share of post-Brexit structural funding be determined? (for example, should it be on measures such as GDP, needs-based, via the Barnett formula; match funding or based on competition?)

The current allocation of EU funds to the devolved administrations should be the baseline for determining future funding levels under the UK Shared Prosperity Fund (UKSPF). In Scotland, economic circumstances have not significantly altered therefore we would expect that any future regional development funding allocation would at least match current funding streams, including rural development/agriculture and fisheries funding.

Funding allocations should not be based solely on GDP which is a broad, blunt measurement and does not take account of rurality and factors associated with the higher on-costs of living and delivering services in islands and remote areas, and also the difficulties in achieving economies of scale. With the development of a new fund, there is the opportunity to consider more sophisticated selection criteria beyond GDP per capita – for example population sparsity, 'remoteness', 'fragility'. The 2013 Minimum Income Standard study undertaken by HIE and other public agencies found that the budgets required by households to achieve a minimum acceptable standard of living in remote rural Scotland were typically 10-40% higher than elsewhere in the UK. For households in more remote island locations, these additional costs could exceed 40%. The 2016 update of this report concluded that living in remote rural Scotland continues to be far greater than in other parts of the UK.

We would not be in favour of funding allocations by a competitive bidding process and dictated by availability of match funding as this would change the emphasis of the fund which is intended to tackle inequalities between communities and to be targeted at where it is needed most.

We further support multi-annual funding allocations to give stability and enable longer-term strategic planning of investments. The current 7-year funding period for EU funds seems to work well in this regard.

2 Should the existing structural funding *priorities* be retained for any new funding approach post-Brexit or are there other national or regional outcomes, strategies or plans to which future funding should align instead?

The development of a new fund provides an opportunity to redesign and strengthen regional economic policy with an adequate budget to support economic growth. It is essential that the UKSPF is seen to directly address regional disparities, as EU Cohesion Policy has sought to do, in order to increase productivity, support people to benefit from economic prosperity, and address permanent geographic challenges. The UKSPF should enable regional economies to make a contribution to national outcomes by allowing the development of bespoke and individual approaches to local economic development challenges, and being flexible enough to respond to changing economic circumstances.

The priorities of the 2014-20 Scottish Structural Fund programmes have been generally appropriate to meet EU priorities in areas of employment, innovation, education, poverty reduction and climate change/renewable energy, however the lack of a territorial dimension to the priorities has resulted in many of the Strategic Interventions (SIs) having limited relevance within the Highlands & Islands due to criteria such as population threshold and minimum project size. This has had the effect of excluding projects from the islands and remote and rural areas.

The UKSPF should continue to build upon the achievements of previous EU structural fund programmes and address regional disparities including geographic and permanent structural challenges which are still evident in islands and rural areas. However, there is concern that the alignment of future funding to the UK Industrial Strategy could be to the detriment of islands and the remoter parts of the UK since the Strategy makes virtually no reference to rurality, or islands, and largely seems to have an urban focus. Further, the Industrial Strategy highlights support for investments in housing which has not traditionally been an area supported by EU Structural Funds. If the scope of the UKSPF is to be widened beyond cohesion policy and addressing regional disparities, then the overall budget needs to be increased accordingly to avoid funds being spread thinly over a greater number of thematic areas.

What's required is a partnership approach by the devolved administrations working with regional and sub-regional stakeholders who have considerable experience and expertise in identifying priorities and challenges and are best placed to deliver for their respective communities. There is little to be gained by criteria and guidelines for programmes which do not meet regional demand. In the Highland and Islands, previous successes have been as a result of stakeholder involvement in programme development, delivery and evaluation. Partnership working will ensure that regional challenges are addressed and opportunities are maximised to bring about a shared prosperity, all contributing to regional and national economic growth.

Clarity is required on whether the UKSPF will include replacement schemes for rural development/ agriculture and fisheries/marine funding. Shetland is a major primary producer of seafood, responsible for 80% of Scotland's mussel production and one-fifth of all fish landed in Britain is landed in Shetland. For decades, financial assistance from the EU's fisheries support schemes has been invaluable in sustaining and developing Shetland's fisheries industry to the point that the seafood sector is now worth over £300 million annually to the Shetland economy.

In summary, we seek a future regional policy that is:

- *nationally aligned and regionally responsive, focussing on regional competitiveness and socio-economic inclusion*

- *long term and strategic in nature, with resources commensurate with the scale of challenge and opportunity*
- *regionally flexible, driven by the involvement of local partners in development, delivery and evaluation*
- *aligned with wider delivery mechanisms and, in particular, UK/Scottish rural policy.*

3 In terms of the proposal for a UK Shared Prosperity Fund - where should the responsibility for any decisions about funding levels and allocation be taken (for example UK Government, Scottish Government, Local Government or local stakeholders) and what level of autonomy should they have in deciding how funding is allocated?

Within Scotland, there appears to be general consensus for devolvement of a funding allocation from the UK Government to the Scottish Government. Within the Highlands & Islands, there is support for further regionalisation via a regional economic policy and potentially a regionally-based SPF.

What has been lacking in the 2014-20 programmes is sufficient involvement from regional and local stakeholders as a result of programme centralisation. This has led to strong feelings of disengagement from the programmes particularly from a local authority perspective where historically local authorities have played a key role in bringing forward projects and being part of programme decision-making structures and monitoring and evaluation processes. We would therefore expect that devolved administrations will work in partnership with regional and local stakeholders to set up appropriate fund delivery mechanisms in order that the decision-making process is at the most appropriate level relative to the scale and objective of the funds. For example, community-led local development schemes such as Leader and the local European Maritime and Fisheries Fund have successfully delivered community and rural development support at a local level and we believe there is strong support and justification for these type of schemes to continue within the set-up of a new funding regime.

4. To what extent should the current system of allocating funding to strategic interventions across Scotland through lead partners etc be retained or changed by any post-Brexit funding approach and why?

Barriers to funding projects

5. What barriers limit strategic intervention funds being committed to individual projects under the current programmes and to what extent should any new structural funding approach address these barriers?

Questions 4 and 5 are considered together since the responses are linked.

The H&I's, through its designation by the EU as a 'Transition' region, was awarded a separate allocation of Structural Funds for the 2014-20 period in recognition of the differing needs and additional support required to address regional disparities. There was consensus among H&I's stakeholders that delivery and decision-making would be best supported by a separate programme for the region, as had been the case with previous Structural Fund programmes from 1994-2013. Instead, the allocation and delivery of the 2014-20 programme via the establishment of Strategic Interventions (SIs) in conjunction with a range of different lead partners has not worked so well for the islands and the periphery. It has resulted in many SIs having limited relevance in the islands due to population threshold and minimum project size thereby excluding projects from the periphery. Examples are: Green Infrastructure – targeted at urban orientated/population settlements greater than 10,000; Low Carbon Travel and Transport – high minimum funding threshold, initially £500,000; Circular Economy – SMEs only. What's been missing from the 2014-20 programmes is the ability to develop bespoke approaches to account for the differing needs of the regional economies within Scotland. Historically, local authorities have been key players in Structural Funds

programmes in developing and leading on projects, and providing match funding. This role diminished under a more centralised approach and the lead partner model implemented for the 2014-20 programmes.

From an administrative perspective, the process of having to complete separate lengthy applications for the 'Strategic Intervention' and the 'Operations' involved a great deal of overlap and duplication of information required at both stages. The purpose of the SI application is unclear since it has no legal standing. The extensive paperwork associated with the submission and appraisal of applications considerably slowed down the process of project approvals and committing monies from the programme. This in turn has contributed to the difficulties the Scottish ERDF and ESF programmes have had in meeting their expenditure targets. However, of equal significance is the decision by some local authorities not to take up their provisional funding allocations, or to re-consider continuing with phase 2 projects due to the overall administrative burden and staff resource requirements.

The development of a new fund should take account of the shortcomings of the SI approach to delivery in Scotland based on the evidence that the top-down, one-size-fits-all model has not been responsive to regional needs and opportunities.

6. To what extent should any rules relating to post-Brexit structural funding enable a flexible approach to the range of local projects that can be supported or should the rules focus on funding specific outcomes or purposes (such as through ring fencing)?

As noted above, there is evidence that within the current programmes, the top-down, one-size-fits-all model has not been responsive to regional needs and opportunities.

The priorities of the UKSPF should be needs-driven, determined by the objectives which need to be achieved, and enable regional economies to make a contribution to national outcomes, while also being flexible enough to respond to changing economic circumstances. There needs to be a recognition that impacts and outcomes in islands and remote and rural areas will be significantly different to those of highly populated, urban areas. The value of interventions should not be judged on broad measurements without considering the fact that even small-scale increases in jobs and productivity for island communities can be transformational. Previous programme successes have been delivered with regional and local stakeholder involvement in development, delivery and evaluation, ensuring that opportunities bring about a shared prosperity.

The CLLD 'bottom-up' approach of delivering support for rural, community development through implementing local development strategies, with local players taking decisions on projects which are community driven and have a wide community benefit, has worked very effectively in Shetland and is a model which we would like to see continued in post-Brexit funding mechanisms.

7. Are there examples of current structural fund priorities being more effectively supported by other funds (or core funding) such that they should not form part of any post-Brexit structural funding approach?

There should be clear delineation between regional and national programmes to ensure no cross-over, or over-provision in support between schemes and making it clear who the target audience is. In respect of the Employability agenda, the existence of EU and multiple national programmes has made for a 'cluttered' landscape and possible duplication of target client groups.

As earlier, clarity is required on whether future rural development/agriculture and fisheries funding will be included within the scope of the UKSPF.

Administration

8. What changes to the current monitoring, evaluation and compliance activities would reduce administrative complexity for any future structural funds approach while maintaining sufficient transparency?

9. Should the system for making claims change for any future funding approach?

In general, the process for accessing and drawing down funding from the current Scottish Structural Funds programmes, and Leader, has been excessively bureaucratic and complex, with processes dictated by IT systems requirements. Therefore, there is an opportunity in the design of the UKSPF to review processes thoroughly from the application stage to claims and audit and make things much more streamline, with levels of audit proportionate to the scale of the project. The experience and knowledge of regional and local stakeholders should be drawn upon in the design of new administrative systems through a partnership approach by the devolved administrations.

With reference to the current Leader programme, the process of applying for funding and drawing down grant has been overwhelming for applicants and draining on community and voluntary resources. Many Leader applicants are community groups without paid staff or professional fundraising experience and rely on volunteer time to prepare funding bids and navigate through the cumbersome and challenging LARCS IT system, and perhaps without access to high speed internet. More often than not, volunteers will be preparing funding applications outwith normal office hours and therefore not be in a position to seek assistance from Leader programme staff at the time it's required. Leader applicants' experience from the current programme needs to be taken into account in the design of any future community-led, bottom up schemes.

Attention needs to turn to putting a greater focus on celebrating project outcomes and achievements, rather than on IT system requirements and audit compliance.