FINANCE AND CONSTITUTION COMMITTEE

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

SUBMISSION FROM SOUTH LANARKSHIRE COUNCIL

South Lanarkshire Council (SLC) welcomes the opportunity to contribute to the Committee's inquiry into the European Structural and Investment Fund Priorities in Scotland post Brexit.

The Council recognises the importance of European Structural and Investment Funds (ESIF) support through the Scottish Rural Development and UK Maritime and Fisheries Programmes for many rural and coastal communities within South Lanarkshire and has extensive experience of delivering LEADER, ESF and ERDF projects as Lead Partner and working with local and national agencies utilising EU funds.

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?)

A key point to make in this connection is not just the share of the overall UK Shared Prosperity Fund (UKSPF) allocated to Scotland but the quantum of resources. The Council is of the opinion that the budget allocated to Scotland should at least match, in real terms, the levels agreed for the Scottish EU Structural programmes in 2014-2020.

The need for the UKSPF to be adequately resourced is shown by the very significant regional economic disparities in the UK, in particular the dominance of London. In 2012 London accounted for 22.8% of output generated in the UK, by 2017 this had increased to 23.9%.

The scale of the problem has not diminished nor is there any convincing evidence from recent economic trends to justify a substantial change in the share of resources allocated to Scotland. There is also a related point to make here regarding the need for a genuinely multi annual approach in the design of the UKSPF – this is not a topic that can effectively be addressed by a "quick fix" approach.

The Council would have serious concerns if the Fund was designed on a UK wide challenge fund basis as this could distort the intention of the UKSPF – promoting inclusive growth – by allocating on the basis of the availability of match funding rather than on need.

It is also worth noting that The Southern Scotland NUTS2 area covers the whole of South Lanarkshire, Scottish Borders, Dumfries & Galloway, South Ayrshire, East Ayrshire and North Ayrshire excluding Arran and the Cumbraes and was created after the 2016 review of NUTS areas. On the new Eurostat data recently produced for the NUTS 2 areas by the European Commission's official estimates of GDP and Purchasing Power Standard the

GDP per head for the South of Scotland was 19,400 in 2017 – **65%** of the EU average. This places it as having the worst economic profile in the UK – worse than West Wales & the Valleys and Cornwall & Isles of Scilly. Within the context of previous EU programmes this would classify the South of Scotland area as the highest priority area with the highest financial intervention and classified as an Objective 1 area as the GDP figure are below **75%** of the average across the EU.

If the post BREXIT funding is to target need then it needs to be considered at a national, regional and local level and evidence based which the above Eurostat data would lead a consideration as to the high resources required to lift the GVA within Southern Scotland.

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?

While there is nothing intrinsically wrong with the priorities for the 2014-20 European Structural Funds, the Council believes these are not as aligned as they should be with the Scottish Government and regional/local economic strategies in Scotland. Over a number of EU funding cycles, EU funds in Scotland have become progressively more difficult to access for the physical regeneration agenda – for example there is no longer a specific priority for urban development in the programmes and the rural ERDF programmes also stopped in the 2014 – 20 period. The UKSPF should be closely aligned with the Scottish Government Economic Strategy – including its commitment to the place based dimension of inclusive growth - as well as the strategies developed by stakeholders at local and regional level. One of the points made by a number of contributors to the Economy Committee Inquiry in 2018 was the lack of "granularity" in the Scottish structural fund programmes – in other words the capacity to develop bespoke approaches to the differing needs of regional economies within Scotland was missing.

The LEADER programme has for many years been successful in community and SME development within the rural area with flexibility to mix capital and revenue funding support. The programme has developed social capital and leads on community led action planning in support of national policy. This approach has worked well within the rural area and offers a model of placed based community led development which could be used within towns.

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 this framework there should be substantial delegation of decision making and implementation within Scotland; either at a regional or a local authority level and community level. Scrutiny by the Scottish Government should primarily focus on holding regional and local stakeholders to account on delivering outcomes rather than the current microscopic audit of inputs that characterise EU Structural Fund Programmes.

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?

The funding of strategic Interventions to lead partners such as local authorities or strategic agencies across Scotland is fundamentally a good system and works well for many funds such as ERDF green Infrastructure or LEADER. However the administration systems and two stage application process and layers of claim process steps have weighed down delivery. Clarifying and streamlining the lead partner responsibilities within a new programme should be achievable within a post BREXIT funding programme.

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?

One of the issues that have prevented the full uptake of the available funds has been a lack of match funding. Over successive EU funding periods intervention rates have tended to reduce and the typical rate out with the Highlands and Islands now stands at 40%. Although the Scottish Government has started to look at higher intervention rates it is constrained by past commitments and the fact that the intervention rate cannot, by EU regulation, exceed 50% in most of Scotland. In the UKSPF 50% support should be seen as a minimum rather than a maximum.

Lack of match funding has meant that many lead partners have required, in the context of both procurement and challenge fund exercises, potential delivery agents to “bring their own match”. Given that in many cases the potential delivery agents are third sector organisations with very limited resources this has led to a number of abortive procurement/challenge fund exercises.

In addition to the match funding issue the complexity and responsibility of acting as a lead partner has deterred a number of local authorities from taking up their notional allocations. The EU compliance burden has also made a number of potential delivery agents declining to submit bids to either procurement or challenge fund exercises.

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)?

The lack of flexibility within the current EU programmes has been one of the key barriers to uptake. While long term funding frameworks are essential within the replacement fund the ability to flex and move allocations to respond to demands within the economy could be a benefit within the new fund. Examples include increasing the levels of in work training while the economy is thriving but moving that intervention to respond to increases in unemployment or the closure of major industries. The current EU programmes have had limited flexibility and the change process and decision chain to long.
Looking ahead towards the UKSPF in Scotland the following would improve the experience and results of structural interventions:

- Regional/local design and management within a national framework to ensure relevance to socio-economic circumstances and broader strategic fit;

- Flexible and realistic timeframes for implementation - underscoring the need for a multi annual approach;
- An emphasis on outcomes and results linked to the Scottish Government's inclusive growth agenda; and
- An intervention rate regime that properly reflects the realities of the constraints on public sector finances.

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?**

The current funds focus on additionality and this factor to needs to continue within any new funding additional and indeed this principle is one of the positive aspects of EU structural funds. The resources for UKSPF should not be identified by "top slicing" existing funding streams.

<u>Administration</u>

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?

The current system has multiple layers of duplication in particular in the approval and audit phases which other funds from the Government have minimalised such as Regeneration Capital Grants, Contaminated Land Fund or Town Centre funds. EU funded projects such as LEADER can be audited by 4 separate audit bodies and potentially for projects with a value of under £20,000.

One of the main problems with the current Structural Fund programmes in Scotland has been the shortcomings of the MI system (EUMIS). Not only did it take 2 years longer than anticipated to achieve full functionality, it has also proven to be an extremely cumbersome system for users. To give an example if a claim is being processed by EUMIS then no changes can be made to the operation – for example notification of a change to match funding – until the claim has been processed. It is important to be aware that it is taking an average of 82 days for a claim to be processed.

Looking ahead to the UKSPF consideration needs to be given to the amount of data that needs to be supplied to back up each claim. A reduction in the amount of data to be verified would speed up the payment process. Assurance could be secured through a combination of up front systems checks and random checks during the course of implementation.

The experience of other employability/business support programmes in Scotland or other parts of the UK could also be investigated to ensure that the systems to be used for UKSPF are broadly comparable. EU structural fund programmes have historically much more onerous than those relating to "domestic" funding streams.

In addition the opportunity should be taken to reduce the very long period which EU structural fund regulations set out for document retention. Given that the majority of operations approved under the 2014-20 programmes will now continue activity to 2022/23 it is likely that all documents relating to such operations will have to be retained until at least 31st December 2025.

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

Consideration could also be given to setting up an advance payment model. This would particularly benefit smaller organisations and was previously incorporated in several programmes such as LEADER.