FINANCE AND CONSTITUTION COMMITTEE

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

SUBMISSION FROM COSLA

COSLA submission

Overview
The Convention of Scottish Local Authorities (COSLA) is the national and international voice of Scottish Local Authorities. COSLA has long been involved in the negotiation of EU Structural Funds both domestically and of the EU rules themselves. We are very committed to ensuring that the replacement of such EU funds once the UK leaves the EU reflects the needs of local communities.

COSLA welcomes the opportunity to contribute to this inquiry from the Finance and Constitution Committee, building on the evidence already gathered by the Economy and Fair Work Committee last year and developments since, such as on the UK Shared Prosperity Fund.

Context:
The EU Structural and Investment Funds (ESIF) is a set of 7 year-long programmes managed by the Scottish Government European Structural Funds Division (European Social Fund, European Regional Development Fund), the Agriculture and Rural Development Division (EAFRD). Marine Scotland manages the UK Maritime and Fisheries Fund (EMFF). Together around £1,8bn of EU funds has been allocated to Scotland through these programmes for the 2014-2020 period.

Following Brexit, and any transition phase immediately thereafter, there is no legal obligation on the UK Government to replace these funds. There is also a Devolution related issue as Rural Development features in the shortlist of 153 of EU returned powers requiring some form of "common frameworks".

However, these funds are, and have never been, a matter of mere financial transfer. They are distinct in nature, structure, timescales and purpose to existing block grants, earmarked transfers or tax rebates or City Deals. Their disappearance would be negative for the overall policy landscape in Scotland and the rest of the UK.

Instead, the key element of the ESIF is to deliver real change in socio-economic performance, through a governance system that aims to embed the national-local partnership approach and a long term, multi annual planning basis, providing funding certainty beyond the term of a parliamentary mandate or two consecutive spending review cycles.

Ahead of the start of the 2014-2020 EU Budget, COSLA successfully negotiated with the Scottish Government that around one third of funding and spend on the so-called strategic interventions (thematic funding partnerships) would be le led by the Local Government sector (eg Local Authorities, Business Gateway, Business Loans Scotland, Community Planning Partnerships).

While the Treasury and Scottish ministers (and more formally the Withdrawal Agreement with the EU) have guaranteed that current EU allocations running until 2020 (in practice to 2023) will be honoured, even in the event of a no deal, there has been limited scoping of the post withdrawal UK and Scottish polices to replace these EU programmes.

This strategic, pluriannual and comprehensive territorial focus will be lost upon closure of the existing programmes when they end in 2020 (albeit residual spend to be completed and claimed by end 2023).

COSLA and indeed Scottish Local Government is keen to work with the Scottish and UK Governments to develop jointly a new post-Brexit Multi-Annual Integrated Sustainable Local Development Programme.

In addition, the Scottish Parliament and Government is urged to support our lobbying that the UK Government opts into the INTERREG Programmes 2021-2027, as the legislation being finalised in Brussels at the moment clearly allows.

The UK is the state in Europe with by far the largest gap in territorial inequalities in Europe. In March, Eurostat figures put inner London at 626% of the EU GDP average per person, whereas the newly defined South of Scotland area had only 65% (a similar level to many Eastern European regions) with Scotland at 98% just below the EU average, and two percentage points less than last year.

<u>UK Shared Prosperity Fund</u>
The UK Shared Prosperity Fund (UKSPF)was first mentioned in the 2017 Conservative Party manifesto and the UK Industrial Strategy. According to the limited information that is available to date the UKSPF will tackle inequalities between communities by raising productivity, especially in those parts of the UK whose economies are furthest behind. The UKSPF will achieve this objective by strengthening the foundations of productivity, as set out in the UK's Industrial Strategy to support people to benefit from economic prosperity. It also aims to simplify administration by eliminating some of the constraints that exist by design in the EU Structural Funds.

<u>Stronger Towns Fund</u>
The UK Government announced on 4 March 2019 the launch a £1.6 billion fund in England to boost growth and "give communities a greater say in their future after Brexit". A total of £1 billion will be allocated using a needs-based formula. £1 billion would be allocated for a 7 year period to the English Regions, but with delivery at Local/Community/Local Enterprise Partnership levels. No announcement was made for Scotland other than the UK Government "will also seek to ensure towns across Wales, Scotland and Northern Ireland will benefit from the new funding." It is unclear if this new fund is part of or associated to the UK Shared Prosperity Fund.

COSLA argues that one of the key assets of the Structural Funds has been the integrated structure and long term planning. A proliferation of small projects not necessarily connected with the wider policy and delivery landscape, announced by the Government or Minister of the day, run counter to the principle of added value or additionality. Accordingly, COSLA believes that the Stronger Town Fund and its associated budget should not be subsumed within the UKSPF. We have written separately to the UK Treasury to seek clarification and to stress that any bid fund arrangements should be developed with COSLA for Scotland in line with our governance protocols.

Rural Development

While all of the CAP Pillar I and most of the Scottish Rural Development Programme (SRDP) is devoted to farm-related support, SRDP has, under EU regulations, a compulsory ringfence of 5% to deal with community-based projects - the so-called LEADER scheme - where Local Action Groups develop ‘bottom up’ Local Development Strategies that suit their area.

While work between DEFRA and the Scottish Government Rural Division and the respective ministers is ongoing and very active on farm related activities, and will be covered in the respective Farming Bills, there has been less progress on the rural development element, even though the Scottish Government has held various consultations on this issue around the summer of 2018.

It remains, at the time of writing, unclear whether the new, post-Brexit support for rural Scotland will have a community-empowerment instrument for non-farming activities that would replace the current LEADER scheme. The same could be said as regards the eventual successor of the local development element of the much smaller European Maritime and Fisheries Fund (EMFF). Given the nature of the UK Shared Prosperity Fund, it is unlikely that funding for rural and coastal communities will be part of it. However, in line with the existing EU structural funds framework, it is important that there continues to be proper coordination of post EU funding support in rural, urban and coastal areas.

Opportunities

There is merit in considering the replacement of ESIF by a home grown funding scheme which is designed to ensure the whole public sector is able to focus on a defined and narrow range of strategic objectives, of national public interest (e.g. increased skills or employability, entrepreneurship) and aligned with the Scottish Government and, importantly, local or regional (Highlands and Islands, South of Scotland in particular) economic development strategies.

In so doing, such replacement EU funding should continue to meet international commitments, such as: the UN/EU Climate and Energy goals; OECD policy commitments; or, more broadly and comprehensively, the UN Sustainable Development Goals (SDGs), that both the Scottish and UK Governments have committed to deliver and report towards in 2019, and which COSLA and the Scottish Government have agreed to mainstream via the National Performance Framework (NPF).

The UK Government has already formally communicated that it is intent on replacing ESIF with the ‘UK Shared Prosperity Fund’. COSLA has assisted in organising a series of workshops by the Scotland Office and the Ministry of Housing, Communities and Local Government (MHCLG) in Glasgow, Edinburgh and Dundee last November.

COSLA has also organised a series of discussions over the last year with Local Government practitioners - notably a large seminar in June 2018 with the Scottish Government Structural Funds and Rural Divisions.

Should the UKSPF effectively be the main replacement for existing EU Structural Funds, our discussions show, so far, that it is necessary for it to take a multi annual approach with greater local flexibility, to make adjustments for example to deal with unexpected economic shocks. The key attributes of the fund should be:

- A proportionate approach to audit and compliance with a degree of trust in existing systems being incorporated as part of the design of the fund;
- A recognition of the match funding constraints that organisations delivering the UKSPF face;
- The need for local input into the design of the fund with greater flexibility to take account of differing challenges in the various regions within Scotland;
- Innovation being recognised as an important element of the fund, but this should not be interpreted as being only about university spin outs;
- A priority to promote inclusive growth by tackling economic and labour market inequality; and
- A focus on outcomes rather than inputs.

In terms of programme design, we should be able to build on the good work of Local Government with Devolved and UK Ministries (BEIS, DEFRA, MHCLG) to draft a UK Partnership Agreement as a basis to develop these new frameworks.

This would both build on the good practice and knowhow accumulated in designing and delivering EU frameworks over several decades, while also acknowledging that the comparatively large UK local authorities have their own significant budgetary and regulatory weight, particularly in providing the right business climate for SMEs, who collectively are the largest employers in the country. Any new UK place-based policy and funding arrangements must be developed with Local Government to ensure they are sufficiently place-specific and draw from all the territorial capital (resources, infrastructure, knowhow) of a given area.

Lessons learned

We are keen that, where possible, the replacement of EU funding in Scotland should be done through a single funding pot. This should avoid the unnecessary gaps, inconsistencies and overlaps that have undermined the combined delivery of the various EU Structural Funds in the past.

We should build consensus to ensure that this single pot is strategic in nature, reflecting central-local joint ambitions on a medium-term timescale. This would consolidate the delivery landscape and allow for more flexibility than at present.

The proliferation of various schemes being successively announced, such as the UKSPF or the Stronger Towns Fund, etc, run counter to that logic.

We are keen to ensure that the Devolution levels of the EU Structural Funds (where Scotland had a much wider leeway than any other devolved or federal level anywhere in the EU) should be retained for any form of UK-wide EU replacement funding.

However, we are equally keen to ensure that further devolution within Scotland takes place. Between 1989 and 2007, this was a defining feature of EU Structural Funds in Scotland.

From that point forward, and partly induced by changes in EU regulations, the specific arrangements for the South of Scotland and, more recently, the Highlands and Islands have tended to be subsumed in all-Scotland arrangements. There is the need to explore further devolution not just for Highlands and Islands and the South of Scotland, but across the country.

While a significant amount of funds for 2014-2020 were managed via Strategic Interventions led by the Local Authority sector, it would be difficult to argue that this equates to local devolution of EU funds, as the Strategic Interventions have acted more as delivery instruments for Scottish Government priorities, than what is known in EU jargon as sub-delegation - i.e. local or regional devolution of EU funds priority setting and management, including local political accountability.

Moreover, and particularly for rural areas, the development of these new frameworks should be used to progress the existing community empowerment agenda, advocated by LEADER/CLLD, and existing and forthcoming Scottish legislation. This, while doing away with some of the constraints currently imposed by EU rules as regards embedding LEADER/LAG in the wider local authority economic and community planning policies, as well as exploring new emerging concepts such as Smart Villages.

Simplification of this new funding instrument would allow us to do away with EU imposed earmarks (such as compulsory 20% for research, or the expectation of spending *only* 5% of rural funds in village renewal and economic diversification). This is both an opportunity and a risk, particularly the above mentioned 5% earmark to LEADER, as this came from Brussels and there may be pressure from the farming sector to scrap altogether any earmark for community empowerment and rural diversification.

Equally there is no need to replicate the same match-funding rates currently set by EU rules, and in some cases, these match funding obligations could be done away with altogether.

The principle of additionality should be retained. This means that spending priorities should focus on medium term priorities (e.g. employability, broadband) that need to be locally determined, but refer to wider national and international priorities. Allocations for this funding replacement should be left outside the Barnett formula.

While there is recognition of the added value of some of the policy and governance elements of the EU funds, there is a clear view that we should not be tied to path dependencies (i.e. there is no need to mirror EU funds present or future where it does not make sense). We should develop new frameworks that make sense Scotland (at community, local and regional levels).

We need to manage expectations – i.e. we cannot expect any replacement fund to address deeper structural issues (e.g. lack of access of services in remote areas), but it must focus on tangible and achievable outcomes. However, as we have seen with some ESIF schemes (Broadband extension, LEADER, employability pipelines), the replacement funds could act as a driver for structural reforms in the way some domestic policies do currently.

Governance

The many Local Government contributions to the 2018 inquiry on this issue by the Scottish Parliament Economy and Fair Work Committee were very clear that the bottom-line for the new funds to replace the EU Structural Funds should keep at very least the same level of devolution to Scotland that is currently the case with EU funds.

In the limited information that we have so far on the UKSPF, UK Government officials have reassured us that it "will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage the devolved administrations to ensure the fund works for places across the UK (…) working in partnership with the Scottish Government, as with all devolved administrations, to address common opportunities. In Scotland, it also means the UKSPF will exist in the context of Scotland's Economic Strategy as well as the successful city and growth deals, agreed jointly between the UK and Scottish Governments."

While such statements are welcome, it is clear that, through the UKSPF, the UK Government may aim to have a more 'hands on' approach to delivery in Scotland than has been the case with EU Structural Funds, where the UK has been practically the only Member State that has given virtually full autonomy to its devolved administrations to define and run their respective programmes. Recentralisation as a result of EU exit would not be welcome.

While it is entirely appropriate that the UK and devolved administrations, as well as Local Government, work to develop jointly the replacement of EU funds, to tackle UK-wide challenges, the definition of Scottish priorities and Scottish interventions must be defined within Scotland - for example when it comes to addressing spatially-based challenges such as local development.

While there is publicly available ministerial correspondence pointing out that the European Social Fund (ESF) would be replaced with an element within the UKSPF, it remains unclear how this is going to operate as, at the moment, the development of the UKSPF appears to be led mainly through the Ministry of Housing Communities and Local Government, whereas ESF was managed by the Department of Work and Pensions (DWP). Clearly, in Scotland we would not be keen to see different parts of the UKSPF managed by separate departments, as it is in England at the moment.

Lastly, an issue worth bearing in mind is the potential impact of the Barnett formula in any form of EU replacement funding. In the current 2014-2020 period, while the EU regulations defined a basic formula to allocate the EU funds across Scotland, a decision was made to allocate additional funds to Scotland and Wales based on their needs. In future, rather than being tied to any existing (EU or UK) allocation formula, a careful, needs-based assessment is required before any policy decision is made at governmental level.

European Territorial Cooperation (INTERREG)

This European Commission tabled on 29 May 2018 its proposal for the EU Structural Funds for the post Brexit period. This includes a specific regulation on European Territorial Cooperation that explicitly allows the eligibility of the UK at NUTS III (local) level for INTERREG (including specific provisions for Northern Ireland cooperation and the PEACE Programme) and at NUTS II Level (sub regional) for transnational cooperation and maritime cooperation. This is welcomed as COSLA and others have been campaigning for this for a considerable time. In addition to proposing to Scottish and UK Governments a business case that replicates the participation of non-EU countries such as Iceland and Norway, COSLA used its technical expertise during the passage of the draft INTERREG Regulation though the Committee of the Regions and the European Parliament, to make the case to enlarge the scope of activities that UK bodies could opt into in INTERREG post-Brexit.

However, while the UK-EU Joint Report published on 8 December 2017 set out “a commitment for both parties to examine future PEACE and INTERREG VA programmes favourably”, the December 2018 Political Declaration only considered the PEACE Programmes but none of the other strands for which the different parts of Great Britain are currently eligible. This is in stark contrast with the unambiguous commitments from the UK in opting into other cooperation programmes on research (Horizon-Europe) or education (Erasmus). While the UK has not ruled out opting into INTERREG, and there is still time to formally opt in, given the lack of commitment thus far, we would be keen that the Scottish Parliament makes a strong call for the UK to opt into INTERREG 2021-2027, just as the Welsh Assembly has already done.

Way forward
We should build on the good practice and knowhow accumulated in designing and delivering EU funding schemes over several decades. Any new UK place-based policy and funding arrangements need to be developed with Local Government to ensure they are sufficiently place-specific and draw from all the territorial capital (resources, infrastructure, knowhow) of a given area.

Key principles:
- Scotland-based
- Central/Local Partnership
- Co-production
- Commitment beyond a single parliamentary term/two Spending Review periods
- Available funds at least commensurate with existing ESIF funding allocations
- Focused medium to long term objectives relating to inclusive economic growth and wider societal/international goals (NPF/SDG)
- Consolidates the scope and resources currently disbursed by the several existing EU funds (the single pot approach)
- Targets territorial inequality and opportunity, urban and rural
- Mainstreams reporting and audit using existing domestic arrangements
- Opts into territorial cooperation programmes with EU (INTERREG, European Network on Rural Development, etc)

We should learn from the lessons provided by the Scottish Programming Board that COSLA and the Scottish Government agreed to develop for the 2014-2020 Scottish EU Fund programmes. It involved various key Directorates, Local Government and others. As described at the previous Economy and Fair Work Committee inquiry, this partnership model should be made more robust, predictable and mutually accountable than has perhaps been the case in the past.

We could use the template provided by the negotiation of the broad priorities of the current period between the Scottish Government and COSLA between 2012-2014, to design the current Scottish ESIF programmes, recreating a Scottish Programming Board with representatives from the key directorates and Local Government.

At UK level we are keen to work with the Scottish and UK Governments, the other devolved administrations and our counterparts from Wales, Northern Ireland and England to develop jointly the UK-wide elements and broad goals of the fund or funds that should replace existing EU Structural and Investment Funds.

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