FINANCE AND CONSTITUTION COMMITTEE

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

SUBMISSION FROM FIFE COUNCIL

Between 2014 and 2020, up to €1 billion in European structural funding is allocated to Scotland under the European Structural and Investment Funds (ESIF) programme. This funding programme is expected to continue in the short-term after Brexit either under the Withdrawal Agreement or through guarantees made by the UK Treasury. After 2020, the UK Government has proposed to fund structural fund priorities through a UK Shared Prosperity Fund aimed at reducing inequalities between communities across the UK.
The Economy, Energy and Fair Work Committee (EEFWC) have reported their recommendations on the UK Shared Prosperity Fund including that it should be for Scotland to decide its own internal allocation formula and should build on the best characteristics of ESIF including longer timeframes, needs-driven and the ethos of partnership working.
The Finance and Constitution Committee's inquiry aims to explore the experience of lead partners, delivery agents and beneficiaries to inform the design of any future funding of structural priorities in Scotland post-Brexit. Given their parallels, LEADER funding is included in the scope of this inquiry.

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 new UKSPF should be resourced at least to the level which matches the ESIF it will replace. For the budget period of 2014-20, Scotland was allocated €476 million from ERDF, €465 million from ESF, £77 million for the LEADER rural development programme, and €107.7 million for EMFF.

The UKSPF should not be tied in to the Barnett Formula, although there should be a distinct allocation for each of the Devolved Administrations to manage. This allocation should be identified and ring-fenced for activities identified as priorities for the replacement funding for EU funding and not just included in the budget settlement. We further recommend a multiannual approach in the design and delivery of UKSPF as it is essential to provide greater certainty in planning and stability of services.

The allocation of the UKSPF should balance need and opportunity, not relying solely on levels of GDP at NUTS 2 level as the current ESIF does. The use of GDP per person provides an indication of economic activity within an area, but it is neither an indicator of wealth nor does it measure regional poverty. At NUTS 2 level there is no allowance for regional variations or to properly take into account the difference between urban and rural areas – or those areas which include both within their boundaries. Indicators should be used which give a more local understanding of the need and opportunity within an area. Given that the funding aims to lessen disparities in economic development, indicators that take into account the relative position of local areas are a must, such as percentage of working age population that are self-employed or percentage in temporary, seasonal or short term employment. Long term data trends must be considered as part of this. A recognition of levels of R&D spend could also be used as a proxy for the key priority of innovation.

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?

If the UKSPF is to replace ESIF then the primary focus should remain economic development and convergence, otherwise it does not replace the funding being lost. The funding should primarily seek to replicate the high level objectives of the current EU Structural Funds, which provide demonstrable added-value, and do not duplicate existing local or national funding. However, priorities need to be set in conjunction with local government. There is scope to expand and improve upon the current priorities. For example, over time structural funding has become restricted to what it can fund in terms of infrastructure, now being mostly limited to low carbon and green projects. While this is mostly appropriate there are some areas of capital investment that remain a priority and in Scotland a place based approach is recognised as a key element of inclusive growth, including capital investment in both urban and rural settings. The important consideration should be that investment makes a significant contribution to addressing local needs as well as exploiting opportunities for the area.

There is also a need to consider emerging growth areas over the duration of the funding programme that is put in place, and not just be tied into current sectoral priorities. For example, Fife Council have participated in an INTERREG project – CLIPPER – which has focused on the development of the maritime sector and particularly on blue economy growth. Post Brexit funding should include flexibility to include this, and other emerging, growth areas which are important to local areas.

An important consideration in setting priorities is to maintain a set of national priorities along the lines of the current ESIF interventions, but to ensure that local areas have the ability and flexibility to concentrate the use of funding on those priorities most relevant to their own identified opportunities and needs. For example, the 2007–13 programme focused on business start-up and the 2014–20 Programme focused on growth companies, it would be beneficial for both to be eligible and for local areas to determine which is the priority or to develop a pipeline approach to provide support at the right times for the individual organisation.

However, priorities need to be set in conjunction with local government strategies, national and rural development strategies, including those currently covered in LEADER Local Development strategies.

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?

The delivery model should be co-designed by the UK Government, the devolved administrations, local authorities and other relevant stakeholders. Initially, the strategic priorities should be agreed at a national level with input from key stakeholders and allocations agreed on a transparent basis. Thereafter the devolved administrations should develop and implement a suitable delivery model in conjunction with local authorities and other stakeholders relevant to the agreed priorities.

Local authorities have unparalleled and distinctive expertise in delivering local activity specific to local needs, both independently and within partnerships. They have the best foresight into local growth potential and are in a position to identify any existing or future skills gaps. This being the case, and in line with the principles of subsidiarity and decentralisation, Scotland's local authorities should be provided with an allocation of the UKSPF to ensure they are able to decide which priorities they should focus on, and which outcomes they need to achieve.

Local authorities in Scotland have demonstrated effective commitment to regional economic growth through the development of City Region and Regional Growth Deals. Local authorities are best placed to determine the use of UKSPF in supporting regional collaboration, in partnership with the UK and Scottish Governments. Fife Council is an active partner in the development and delivery of the Edinburgh and South East Scotland and Tay Cities Region Deals.

The development of activity which supports the translation of the UK Industrial Strategy into local outcomes via UKSPF funding will best be determined at a local authority level, working in partnership with national agencies and representative bodies.

For those interventions aimed at increasing the competitiveness of SMEs, including the agriculture and fisheries sectors, the landscape of accessing finance is too complicated – both through grants and other forms of support. Attempts to simplify this have had some success, but there remains a myriad of support through national and local sources, private and public sources and also wide range of types of finance available. UKSPF must be careful not to complicate this further and should be co-ordinated at a local level with other provision.

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 system of lead partners adopted in Scotland has led to very mixed results. While the principle is sound, the allocation to lead bodies who had no or very limited experience of EU funding proved to be too steep a learning curve in many cases. This led to delays in getting some interventions 'off the ground' and difficulties in meeting performance reserves. While elements such as the performance reserve will not be a factor in a UK led programme there remains a case for delivering the funding programme through experienced lead partners.

The two layered system of strategic interventions and then operations having to be approved also added to the complexity of the process, with unnecessary duplication across both layers. In general, the lead partner system adds a further level of bureaucracy and would not capitalise on the opportunity for the UKSPF to have a more efficient and streamlined process. Experience during the 2014-20 programme demonstrates that lead partners across the strategic interventions varied in their approach and effectiveness in highlighting opportunities and providing information on processes. Each set their own call timetable and assessment procedures, leading to a confusing landscape. Despite the best efforts of local authority officers, communication with lead partners could be at times poor.

The 2007-13 programme had a number of priority areas where delivery was retained by the Scottish Government – meaning the same organisation was both Managing Authority and lead partner. This does not allow for the required separation of duties and should be avoided going forward.

The current lead partner model has led to a reduction in the involvement of the third sector. To increase the capacity and impact made by the sector, local partnerships or consortia should be encouraged. In Fife we have an excellent example of the third sector working together in the Fife Employability & Training Consortium (Fife ETC). Building on the expertise of the 9 smaller third sector organisations involved, the consortium has been able to develop a programme of activity that supports multi-barrier adults across Fife and has grown to deliver the largest programme of activity in the employability intervention - providing the opportunity for organisations to work in parts of the region and establishing delivery partnerships that previously wouldn't have existed.

A system of allocating to the local level would ensure that activates across multiple priorities can be supported as part of a larger package, rather than coming under the span of more than one lead partner. This could also include options to share across border, or partnership working across regional areas to build on the co-operation activities that have been supported.

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?

The biggest barrier to access the funding and maximising spend was the delayed start of the current programmes. Delays in the programmes being approved by the European Commission and in setting up the MI system (EMIS and/or LARCS) meant that project approvals and claims were not in place until 2 years after the intended start dates. The UK Government should be consulting now on the UKSPF with a view to having the funding in place from Jan 2021 and funding allocated and being claimed by 2022. As part of this process it should be remembered that LEADER will be closed to new projects from Dec 2019 and is therefore subject to a longer potential gap in funding than the other ESIFs.

Match-funding (the requirement for partners to provide a specified percentage of co-finance) can be difficult to obtain for all actors involved in bidding for EU structural funding in an era of much-reduced public finance. Although there has been an ability to have different intervention rates based on match funding availability – in practice the maximum intervention rate was sought in most cases. More scope for varying intervention rates should be included in the new programme. Currently the EU regulations do not allow for an intervention rate higher than 50% on most of Scotland – but the UKSPF will not be bound by these regulations and we therefore recommend that the rate of 50% should be adopted as a minimum and not a maximum number for future EU replacement fund.

EU auditing regulations mean that project payments are not made upfront, and the UKSPF offers an opportunity to reconsider this principle. Payment in arrears makes it difficult for smaller projects and those operating in the third sector to access the funds. The ERDF programme has sent some precedent in this area with upfront payments to the business loans fund projects and this should be extended further. The UKSPF should consider advance payments of a percentage of funding approved as was previously the case in some ESF programmes from 2000-06.

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)?

Local authorities should be given control and autonomy over their allocation of UKSPF, as they are in the best position to make decisions on local growth, based on local need and opportunity. They should not be expected to ring-fence funding from their allocation to support national initiatives, and the devolved and central governments should not expect councils to finance statutory activities via this fund.

An agreed formula (among all levels of government) to address inequalities and to support productivity should be the basis for the funding allocated to local government, including unemployment/inactivity and business start-up and survival rates. The UKSPF should encourage cooperation across regions - not competition - and to support local authorities in delivering vital economic development services and for initiatives which tackle poverty and social exclusion. This will ensure that no area of Scotland gets left behind.

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?

No. Although there are other funding programmes with similar outcomes, these are usually more targeted and should be seen as complimentary to the post Brexit approach rather than the activities excluded. Other funding can also be used as match funding to ensure that local priorities are being addressed. There are specific examples of funding where there is very limited alternative funding available, in particular many of those supported through LEADER and EMFF local programmes.

The principal of additionality should continue to be part of the assessment process to take into account other funding that may be available.

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?

Regarding reporting, there are different IT systems used within ESIF, including for ESF/ERDF (EUMIS), LEADER (LARCS) and EMFF, and the key transnational programmes with which local authorities engage, namely INTERREG and Erasmus+, again have different systems. Some of these systems work better than others and experiences with EUMIS and LARCS have not always been as favourable. In order to improve the audit and evaluation process, an enhanced harmonised IT system should be designed, thoroughly road-tested and in place by the conclusion of the ESIF and for the start date of the replacement funding framework.

Simplifying the evidence requirements is essential for the UKSPF. Robust guidance should be established to support delivery partners and not create additional barriers that lead to vulnerable clients feeling awkward and unwilling to engage. It is understandable that an evidence trail is required to adequately evidence the spending of public money, but this should not be self-defeating.

The administration of funding should be proportionate to the level of funding awarded. In this respect monitoring should also be proportionate and at a Scottish level, monitoring from the Scottish Government should focus in high level outcomes and responsibility for the detail of implementation should be carried out at a local level.

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

The use of unit and flat rate costs models has made the claims and verification process easier than previous programmes and should be used more extensively. For example the direct staff cost plus model used in employability programmes has been simpler – but at the outset still caused delays due to the lack of guidance on the evidence requirements. Clear guidance in advance of beginning the programme delivery phase is essential.

Addressing the issue of payment in arrears was noted above would mean that delays in the claim system would have less of an immediate impact on cash flow for applicants – although it is recognised that this needs to be balanced with the audit requirements.

The Committee would welcome written submissions dealing with the issues outlined above and any other relevant views in relation to the future funding arrangements for EU structural funding priorities in Scotland.

The closing date for responses is Thursday 25 April 2019.