

FINANCE AND CONSTITUTION COMMITTEE

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

SUBMISSION FROM HIGHLANDS AND ISLANDS ENTERPRISE

Introduction

HIE welcomes the opportunity to respond to this call for evidence. We recognise the substantial impact that European Structural Funds and LEADER have had on the socio-economic development of the Highlands and Islands over the last three decades, in terms of infrastructure investment, business support, skills and employability programmes, community capacity building and environmental management. We further recognise the need for a future UK regional policy that supports and enables inclusive economic growth across all regions.

Highlands and Islands Enterprise

Highlands and Islands Enterprise (HIE) is the Scottish Government's economic and community development agency for the north and west of the country. Our region comprises over half the Scottish land mass (including 94 inhabited islands) and is home to around 470,000 people.

HIE's role is to lead regional growth and development in line with Scotland's Economic Strategy (SES), improving competitiveness and building a fairer society across the Highlands and Islands. We work in alignment with partner agencies, all reporting to the Enterprise and Skills Strategic Board.

HIE's approach to regional development is drawn from the national priorities described in SES: Investment, Innovation, Internationalisation and Inclusive Growth. We help build successful businesses, social enterprises and resilient communities; support the growth of industry sectors, and invest in the strategic interventions which create the conditions for a competitive region. Our current priorities, planned activities and budget information can be found in our Operating Plan.

HIE has played a leading role in the development, delivery and evaluation of successive Structural Funds programmes, working closely with Scottish Government and other national and regional stakeholders. We were a strategic delivery body in the 2007–13 programme and are a lead partner in the current programme. We have also had some input to the development and delivery of the Scottish Rural Development Programme (SRDP) and European Maritime and Fisheries Fund (EMFF).

We have previously submitted evidence to the Scottish Parliament Economy, Jobs and Fair Work Committee on European Structural and Investment Funds¹ and to the UK Parliament All Party Parliamentary Group on Post Brexit Funding for Nations, Regions and Local Areas²

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?)**

Given, as we will argue elsewhere in this submission, that fund design, delivery and regional allocation is best led by devolved administrations in partnership with regional stakeholders, a pragmatic solution at UK level would be to "roll over" existing Structural Fund shares to the four

¹ https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/ESIF-036-HIE.pdf

² <https://www.postbrexitappg.org/s/Highlands-and-Islands-Enterprise.doc>

nations. This approach to national allocations from the UK Shared Prosperity Fund (UKSPF) has been recommended by the Westminster All Party Parliamentary Group on post Brexit Regional Funding.

We do not favour Barnett formula allocations as this would divorce fund allocations from regional needs and opportunity. Allocations based on match funding or competition would result in allocations driven by available resources and / or ability to draft compelling funding bids.

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?

There is no absolute requirement to retain existing Structural Fund priorities, although we recognise that a number of these priorities broadly represent sensible long-term objectives, for example enhancing SME competitiveness, transitioning to a low carbon economy and combatting poverty and social exclusion.

This is an opportunity to review and evaluate existing priorities to determine the range and scope of future action in addressing diverse regional development challenges and contribute to local, regional and national outcomes.

HIE's view is that inclusive economic growth should remain at the heart of the new fund – addressing regional economic disparities and recognising that all parts of Scotland have a contribution to make to economic prosperity. This means fund priorities that align with the Scottish Economic Strategy and contribute to the National Performance Framework. Priorities will also need to reflect the breadth of existing funds to be replaced by SPF. For example, elements of the LEADER approach may be incorporated in future regional funding and transnational regional collaboration, replacing ERDF funded INTERREG programmes, may be included.

Furthermore, given the diverse economic geography of Scotland, flexibility in defining priorities and actions at regional level, together with a high degree of regional stakeholder input, can ensure that they are reflective of regional challenges and opportunities.

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?

UKSPF funding should be commensurate with the scale and nature of challenges to be addressed, opportunities to be realised and the breadth of action proposed. While the objectives and priorities of a UKSPF will clearly be a determining factor, the current level of EU Structural and Investment Funds, comprising ERDF, ESF, EMFF and Rural Development funding, is a useful benchmark for the scale of funding required to address long term and complex regional development challenges.

Furthermore, the long term, multi annual allocation of funds has facilitated a strategic response to regional development challenges and opportunities and has been a widely acknowledged benefit of EU funding.

Within Scotland, given its complex economic geography, allocations to regions or functional economic areas, based on objective criteria is sensible. HIE favours an allocation to the Highlands and Islands with a high degree of regional stakeholder involvement, in partnership with Scottish Government, to determine priorities, desired outcomes and fund allocation. Delivery of EU Structural Funds at Highlands and Islands level worked effectively in this way, over successive

EU programmes up until 2014. The current single Scottish programme approach adopted for the 2014 – 2020 programme has, arguably, worked less well.

Historically, GDP per capita has been used as the basis for allocation of funds. This indicator is still relevant, although it does not fully articulate the underlying issues of economic disparity. Post Brexit there is an opportunity to consider other indicators that more effectively tell the regional economic story, for example population sparsity, dependency ratio, employment / participation rates, average wage levels, economic concentration, remoteness / fragility.

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?

This approach has been a valid attempt to focus funding on particular priorities, align with existing activity and ensure that funds are administered by organisations with the capacity and capability to manage complex administration and compliance requirements. It does make sense for strategic allocation of funds to certain organisations as a way of focusing activity, providing longer-term funding and planning horizons, and streamlining delivery. The example of Strategic Delivery Bodies (SDBs) in the 2007 – 2013 programme is a good one, where organisations, including HIE were allocated funding and given flexibility to decide on the best mix of activities to deliver certain outputs and outcomes over a multi-annual period.

The current lead partner model, although an evolution of the SDB model, has been less effective for a number of reasons:

- 1) It has proved difficult to co-ordinate and integrate activity in the way that was envisaged at the outset. More effective governance arrangements are required to support a lead partner model.
- 2) The fund approval, claim and wider administration arrangements for lead partners has been complex, reducing the potential benefit of flexibility and alignment with other activity.
- 3) Governance arrangements (formal and informal) have not succeeded in drawing out the potential synergies between the activities of different lead partners.

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?

There have been a number of factors limiting commitment of funds in the current programmes, each of which can be addressed in a new approach. These include:

- 1) Delay in approving Operational Programmes, and thereafter a complex and lengthy process of approving Strategic Interventions and following that, Operations. Work should begin as soon as possible to develop a new approach and avoid a hiatus between current and future programmes. In addition, a new approach would benefit from a simplified process of fund allocation and approval.
- 2) Development and delivery of some Strategic Interventions pan Scotland without the flexibility, initially, to respond to regional differences and needs. Subsequent changes to some operations have improved uptake but valuable time has been lost. A regional approach across Scotland should be adopted – HIE believes that programming at Highlands and Islands regional level, effective in Structural Funds programmes up to 2014, is desirable.
- 3) Programmes rules and guidance have evolved over the programme period, causing delay in approval of funds and subsequent spend and claims. The development of clear rules and guidance at the outset should be an objective of a new approach.

- 4) The lengthy process of developing EUMIS (the programmes management information system) and inflexibility in its operation has delayed fund approval and claims.

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)?

Post Brexit structural funds should focus on clearly defined objectives and outcomes. Its primary objective should be a focus on addressing the economic disparities between different parts of Scotland. Given the complex economic geography of Scotland and differing challenges and opportunities across the country, programming should be responsive to place, meaning different actions in different places.

In the Highlands and Islands, a partnership between Scottish Government and regional stakeholders to develop and deliver will ensure a future programme that is nationally aligned and regionally responsive. The membership of existing regional structures, for example the Convention of the Highlands and Islands (COHI) or the Highlands and Islands European Partnership (HIEP) could be the basis for such a partnership.

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 benefit of EU Structural Funds has been that they have enabled long term focus on addressing regional disparity, being used alongside domestic funds to increase and enhance activity. This has enabled delivery of key projects to improve regional economic performance. Future programme funding will need to work in the same way, aligning and dovetailing with other funds to achieve the best outcomes.

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?

There are a number of opportunities to reduce administrative complexity and improve operation of a future programme. They include:

- 1) An audit and compliance regime that is proportionate and no more burdensome than that for wider public funding. The level of supporting evidence required for programme funds should be no different to that required for match funding.
- 2) Renewed consideration should be given to a stronger focus on outcomes rather than programme expenditure. A move towards using unit costs based on achieved outcomes was considered in the current programme. This could be revisited in the future for some types of activity.
- 3) Programme rules and guidance developed at the outset and avoiding post approval changes to eligibility which compromises activity and complicates the claims process.
- 4) A robust and effective programme management system, available from inception.
- 5) Effective governance that enables Scottish Government and stakeholders to understand how the programme is performing at regional level and enables them to make informed decisions about programme management.

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

Yes, implementation of a unit cost methodology should be considered for some types of activity. The systems should be streamlined – the current claims system is very cumbersome, and does not allow for various administrative functions to be undertaken at the same time e.g. if a claim has been submitted project change requests cannot be processed. This has delayed implementation considerably.