

**SCOTTISH PARLIAMENT FINANCE AND CONSTITUTION COMMITTEE****FUNDING OF EU STRUCTURAL FUND PRIORITIES IN SCOTLAND, POST-BREXIT****Submission by the East of Scotland European Consortium (ESEC)****Introduction**

The East of Scotland European Consortium (ESEC) was established in 1992 to represent the European interests of local authorities in Eastern Scotland. We have a membership of 7 local authorities within this area (Aberdeen City, Angus, Dundee City, Falkirk, Fife, Perth and Kinross, and Stirling). Our member councils have been fully engaged with the both the previous and current EU funding programmes and we therefore welcome the opportunity to respond to this consultation on the funding of EU structural fund priorities in Scotland, post-Brexit.

For examples of the EU projects being delivered by our member councils, please take a look at our [case study booklet](#).

**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 so that it at least matches the ESIF it will replace. For the budget period of 2014-20, Scotland was allocated €476 million from the ERDF, €465 million from the ESF, £77 million for the LEADER rural development programme, and €107.7 million for the European Maritime Fisheries Fund. The future allocation should be at least equivalent to these amounts, and it should also take into account any future inflation increases. It should not be tied in to the Barnett Formula.

The UKSPF should be developed to allow for maximum integration with other funding streams for local growth. As a domestic fund coming from the UK government, this will allow it to be matched with EU funding programmes, such as Erasmus, Interreg, and Horizon Europe, should we continue, as desired by many, to participate in these funding streams.

The allocation of the SPF should be about need and also opportunity, not relying solely on levels of GDP at NUTS 2 level as the current ESIF does. Allocation of ESI funding is calculated using GDP per person, however this is insufficient as it does not tell the whole story. While it provides an indication of economic activity within an area, it is not an indicator of wealth nor does it measure regional poverty. Through the prism of GDP measurements, the NUTS 2 regions of Eastern and North Eastern Scotland are classed as well-developed. However, applying other measurements alongside GDP, such as the Scottish Indicator of Multiple Deprivation (SIMD) makes the case for a higher, more targeted level of financial intervention. Employing this data will ensure no part of Scotland gets left behind. Along with targeting the future funding framework at identified areas of need, it should also be invested in areas of opportunity. Data such as GDP could be employed to identify areas of opportunity and economic growth – in turn investing in potential success alongside challenges.

**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 SPF 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 priorities. For example, EU funding programmes have progressively moved away from being able to invest in physical regeneration investments, and is now quite tightly restricted to what it can fund in terms of infrastructure, being mostly limited to low carbon and green projects. This could be broadened to include other infrastructure projects, if not covered by other funding streams. Local areas should be able to determine which priority industries and sectors need support in their area. In the current programme, activity such as support for tourism priorities have not been supported, however it is a key sector for many areas.

The 2007-13 ESIF programme period had a rural and an urban priority, and the reinstatement of this would be welcome to help to bring geographical focus and to recognise the differing needs and opportunities between urban and rural areas. The ESF programme 2014-20 has a focus on helping those further removed from the job market back into employment, and also tackling poverty and social exclusion, very demonstrably people in need. The future replacement framework could extend this scope to also integrate labour market needs, facilitating career transitions, promoting professional mobility, and reskilling opportunities. The replacement framework could also contribute to emerging and growth sectors through the improvement of education and training necessary for the obtainment of new skills and qualifications. Such schemes should be made available to those who may already be in the labour market but in need of retraining, as well as those who are not in employment.

**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 UKSPF is an opportunity to be more flexible than its predecessor and address more closely both the challenges and opportunities across Scotland's diverse regional economies. The delivery model should be co-designed by the UK Government, the devolved administrations, local authorities and other relevant stakeholders, perhaps via a group to take forward the design of the new SPF with representation from key stakeholders from each of the devolved nations.

An Independent Administrative Body is critical for the fund. The Managing Authority cannot also be the auditing/verification body as well as the assessing body etc. In Scotland the 2007-13 programme period had ESEP Ltd as an IAB, and this created a separation between the decision making body and the operational administrative body. In case of any dispute the Scottish Government was then able to take an independent view on the matters. This separation of duties is very important in order to ensure transparency.

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.

Local authorities have unparalleled and distinctive expertise in delivering local activity specific to local needs, either independently or within partnerships. They have the best foresight into local growth

potential, and are in a position to identify any existing or potential skills gaps. This being the case, Scotland's Councils should be allocated their fair share of the SPF to ensure they are able to address their local needs and opportunities and to decide which priorities they wish to focus on, and which outcomes they wish to achieve.

**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?**

ESIF stems from Cohesion Policy, which is about a bottom up approach and regional variances are undoubtedly best served at regional level. However too many of the Strategic Interventions are managed by national organisations and there is limited local control. This is not the optimal approach to addressing regional issues, but instead it gives control to national bodies with a focus on national issues. The 2007-13 programme had priority areas, all managed by the Managing Authority, which were not aligned to a national body. This allowed for more flexibility to take account of regional variances. Furthermore, the lead partner system adds a further level of bureaucracy, and the UKSPF offers an opportunity for a more, efficient, streamlined process. Also, in our experience during the 2014-20 programme, we found 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. Transparency of approach was also reduced as a result, with limited awareness of the decision making process and limited involvement at a local level in that process. Programmes prior to the 2014-2020 programme engaged advisory groups to assess and discuss all applications, minutes of meetings were published regularly and the process felt more transparent and fair.

## **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?**

Match-funding (the requirement for partners to provide a specified percentage of co-finance) can be difficult to obtain in an era of much-reduced public finance, for all actors involved in bidding for EU structural funding.

For some programmes, pre-financing is available, but for others, project payments cannot be made upfront, and the UKSPF offers an opportunity to reconsider this principle. For example, the National Lottery Fund distinguishes between small (up to £10,000), medium (£10,000 to £100,000) and large grants (over £100,000). Following this approach, if the UKSPF allowed for up-front payments, and adopted proportionate reporting requirements, it would be more accessible to small scale projects, and projects being designed by community groups, as is the case for LEADER, the EU's rural development programme.

Due to the referendum and uncertainty around Brexit, a lot of local skills have been lost in terms of developing bids, auditing and monitoring. Support to allow for skills development in this area and maintaining these posts would ensure these staff can be retained.

**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 from the 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 then 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. The UKSPF should encourage cooperation across our regions, not competition, and funding should therefore be awarded based on local demand, and to support local authorities in delivering vital employability services and for initiatives which tackle poverty and social exclusion.

**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?**

Any replacement funding frameworks should adhere to the principle of additionality, which in turn will avoid duplication or conflict within and between local authorities. This being said, there are domestic funds which complement EU funding programmes. For example, the Fair Start Scotland programme has similar priorities to the European Social Fund (ESF+). However, the ESF extends to potential participants who may not be eligible through domestic employment programmes. Furthermore, ESF recognises a further range of milestones than Fair Start Scotland, whose main outcome is acquiring employment of 16 hours or more. ESF also recognises achievements such as gaining qualifications or entering into employment or training. In order to extend the scope even further, there should be more flexibility in the targeting of participants, and more flexibility to be creative around job creation (e.g. being less prescriptive about employer eligibility for wage subsidies, Modern Apprentices, etc.) This should also address the potential need to support the development of higher level skills, particularly as EU migration decreases.

## 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. Our members report that some of these systems work better than others. The EMFF IT system which is managed by Marine Scotland has often been cited as an example of one which works very well. Experiences with EUMIS and LARCS have not been as favourable. Differing systems also cause confusion for local authority finance departments, who do not always understand the difference across or within EU programmes. In order to improve the 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. This system should not be overly complicated and testing should ensure it is fit for purpose.

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

The process for making claims is known to be too slow and complicated, and is a barrier to smaller organisations with a limited cash flow. This was referred to explicitly in the Scottish Government's evaluation of the LEADER evaluation of November 2018. Also, the issues around IT systems led to delays in projects being able to claim. Therefore – and as referred to in Q.8 – the next generation of

monitoring and reporting systems should be thoroughly road-tested and ready by the launch of the replacement programme. The process for notifying changes to projects also needs to be considered and simplified.

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