FINANCE AND CONSTITUTION COMMITTEE

FUNDING OF EU STRUCTURAL FUND PRIORITIES IN SCOTLAND, POST-BREXIT SUBMISSION FROM COMHAIRLE NAN EILEAN SIAR

Funding of EU Structural Fund Priorities in Scotland, post-Brexit - Finance and Constitution Committee's Call for Views

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 Conservative Manifesto has stated that the Shared Prosperity Fund will be, among other things, "….*targeted where it is needed most*." Allocation of funds should be on basis of need, using agreed and reliable indicators such as GVA/GDP in addition to more robust deprivation indices or more sophisticated selection criteria such as population sparsity, remoteness, social and economic fragility, insularity and peripherality, average wage levels, fuel and child poverty (not SIMD for the Outer Hebrides as it is an unsuitable measure). While GVA per head can provide estimates of economic activity, the measure does not provide adequate insight into poverty or quality of life. Measures such as disposable income and the regional human poverty index give a more nuanced view of regional poverty. Allocations should also reflect the additional costs of living in remote rural and particularly island areas by undertaking a Brexit impact assessment and applying the principle of island proofing on any funding allocation to the Scottish Islands. The Minimum Income Standard for Remote Rural Scotland report found that households in remote rural Scotland require significantly higher incomes to attain the same minimum living standard as those living elsewhere in the UK. This is partly due to the costs of additional travel, but mainly caused by the higher cost of buying the same things as elsewhere, and the extra cost of keeping warm.

While it is recognised that there are significant and increasing disparities between regions throughout Scotland and the UK, cognisance has to be taken of the significant disparities within regions. There has to be sufficient flexibility in any new Fund, in terms of scale, scope and priorities, to effectively address the challenges faced by remoter rural areas and islands in the Highlands and Islands. Currently the Highlands and Islands is classed as a 'transition region' through the EU Cohesion Policy classification of regions at NUTS2 levels, yet within this region here are important economic variations due to the prosperity of the city of Inverness. (Source: Scottish Parliament Finance & Constitution Committee call on EU funding competences, response by Stirling University): The 'importance of place' was emphasised by the DBEIS Minister Greg Clark in September 2016 as being an important principle in informing the future development of the UK's Industrial Strategy and he added that it was important that future centralised local government policy should not treat every place as if these were identical. One of the key points raised by Highlands and Islands stakeholders in the EU Structural Funds consultation 2014-2020 was that a national 'one size fits all' approach would not work in areas such as the Highlands and Islands and that has been borne out to a certain degree. A differentiated approach needs to be taken to reflect regional needs.

Therefore each regional or sub-regional area should receive an allocation based on robust and reliable wealth indicators, taking account of sparsity of population, higher cost of living, remoteness, fragility, child and fuel poverty etc. That allocation should be determined at the beginning of the programme to assist regions in formulating long term strategic plans.

Funding outcomes should not be on a competitive challenge fund basis between areas as this would overlook the argument that allocation should be based on need.

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?

Current Structural Funds' priorities are based around EU 2020 priorities and as such are EU-wide and while Cohesion Policy aims to reduce economic disparities across regions, in the more developed Member States such as the UK, EU Structural Funds will not support certain types of infrastructural and transport development which are still of fundamental importance to the Western Isles. The islands benefited greatly from Objective 1 1994-99 and to a lesser extent HISTP 2000-06 in terms of major transformational transport and infrastructural projects. However, infrastructural support has diminished over ensuing programmes and the transport network within the islands has deteriorated in the interim. New resources are urgently required to repair and restore existing infrastructure while supporting new inter-island links and the completion of the Western Isles Spinal Route.

Speculative funding for innovation is also required, particularly around areas like Wave Energy and the utilisation of Hydrogen as a fuel vector. There should also be a drive to address high levels of Fuel Poverty within the islands. This could be in the form of supplementary energy efficiency programmes or the development of smart grid solutions to supply island homes with electricity from island wind farms at lower cost.

The key growth areas in the Western Isles are Renewable Energy, Research & Innovation, the Visitor Economy, Food & Drink, the Digital Economy, Culture and Media, Textiles, Fisheries and Agriculture, to name but a few key sectors, and the Comhairle would wish these to be contained in any future domestic or regional strategy, policies and plans. Energy, Transport and Digital Infrastructure all need upgrading to enable the islands to be more competitive and have some measure of parity with mainland areas.

Social funding should also feature but not to the exclusion of economic / infrastructure funding. Current ESF Programmes in the Western Isles such as the Employability Programme and Poverty and Social Inclusion Programme are providing a legacy, but further and a higher level of funding could build on that. One of the difficulties with the current Structural Funds programmes is that the eligibility criteria for awarding funding has been quite restrictive – essentially Climate Change, SMEs and Job Creation and Poverty and Social Inclusion. This would not be the case post-Brexit, should it happen, where priorities could be set on a differentiated regional basis that so that SPF funds can have the greatest impact. While the current Structural Funds have met the EU and national Inclusion Agenda, these have not had much impact in terms of assisting trade apprenticeships which could have met the needs of local employers and the local economy, despite significant demand. This could also have helped the local 'young economically active population' agenda.

As regards alignment to future strategies and plans, The Islands (Scotland) Act/National Islands Plan, the Crown Estate Bill, the devolution of Marine Regional Planning, Land Reform legislation and moves towards Single Island Partnerships are all part of a process inexorably driving towards greater self-determination for Scotland's Islands. These processes reflect the distinct needs and opportunities of island areas.

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?

It is essential that the Shared Prosperity Fund is a stand-alone Fund that can be seen to directly address regional disparities, as EU Cohesion Policy has sought to do and not be conflated with other funding in place or opportunities being negotiated. For example the Shared Prosperity Fund (existing funding) should be entirely separate from any Islands Growth Deal (new funding) currently being negotiated.

It would appear that priorities will reflect those within the Industrial Strategy and that this is an opportunity to re-balance the UK economy. However, the word 'industrial' has certain connotations and may be regarded as being rather incongruous in the context of remoter rural and island economies where there is little or no industrial heritage. Pre-programme consultation is vital and this should be done in an effective and credible consultative manner with local authorities and regional stakeholders. Arguably, the consultation process in current EU Structural Funds programmes has largely been a paper exercise without much cognisance taken of stakeholder views from the Highlands and Islands, at least not many that have manifested at the implementation stage. It is evident that top-down, one size fits all national programmes do not work. Triple devolution from national government to local authorities to communities could work well in terms of a future regional policy supported by the UK Shared Prosperity Fund. For that to happen, there has to be an understanding by central government of what is required to achieve sustainable regional development throughout the country.

EU Structural Funds 2014-2020 are currently very centralised and overseen by the Managing Authority (Scottish Government) in Scotland and the Comhairle would seek further devolution of any national funding programme to the regional level, possibly at Scottish Islands or Scottish Islands and West Highlands Partnership, if there was a political will, but at the very least at Highlands and Islands level. Locally delivered EU programmes such as LEADER and EMFF have worked well in the Western Isles where 'local development strategies' have shaped and guided the application and decision making process. There may also be scope for integrating local delivery of some parts of any replacement scheme for SRDP.

Certainly, any future funding programmes should reflect regions' distinct needs and reclaim a territorial perspective which has been lost in the 2014 to 2020 Structural Funds programmes. It is worth noting that the most successful EU Structural Programmes in the Highlands and Islands were the most devolved, e.g. the Objective 1 programme 1994-1999 and the HISTP Programme 2000-2006. The H&Is Convergence programme saw the emergence of Strategic Delivery Bodies and CPP mechanisms which had their difficulties in terms of delivery, while the current EU Structural Funds programmes 2014-2020 are based on a Lead Partner model, consisting mostly of Scottish Government departments, national or regional agencies. Local authorities have largely been on the periphery of the current EU Structural Funds programmes at all stages of the process, from consultation, governance to delivery.

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 ERDF and ESF programmes are being delivered through eleven Strategic Interventions led by Lead Partners and Scottish Government Departments. Lead Partners include national bodies such as the Scottish Funding Council; Skills Development Scotland; Transport Scotland; Scottish Natural Heritage; and Visit Scotland; and regional bodies such as Highlands and Islands Enterprise and local authorities. Local Authorities' role in the delivery of Strategic interventions as Lead Partners, has been limited to Employability Pipelines, some aspects of Poverty and Social Inclusion (Enhanced Employability) and Business Gateway, representing a relatively small proportion of the transitional monies allocation, e.g. £19.61m for Employability and £3.02m for Poverty and Social Inclusion in the Highlands and Islands.

It is fair to say that some of the Strategic Interventions have had either limited or no impact or relevance in the Highlands and Islands, for example, Green Infrastructure (urban orientated/population settlements >10,000); Big Lottery Poverty and Social Inclusion (urban, largely city orientated); Low Carbon Travel and Transport (high minimum funding thresholds - initially £500k); Circular Economy (SMEs only); National Third Sector Fund (Third Sector only); Growing the Social Economy (both Third Sector, not for profit organisations, or Social Enterprises only), and the Social Innovation Fund (Social Enterprises only). Historically, local authorities have been key players in ESIF programmes, as influencers, in developing and leading on projects and providers of match funding in the open competitive bidding rounds of previous programmes, but that role has diminished under a more centralised approach and the Lead Partner model adopted by Scottish Government. The Comhairle and other Highlands and Islands stakeholders requested specific stand-alone Sustainable Transport and Culture and Heritage Strategic Interventions, at the beginning of the programmes, but these were not granted. A Culture and Heritage strand worth about £5.4m Highlands and Islands–wide and led by SNH, has recently been launched and will be taking applications up until 22 April 2019. This is relatively little funding across the region, is likely to be oversubscribed and highly competitive.

The Comhairle would not therefore seek a retention of the Strategic Interventions model, as funding allocations are sought on a regional/sub-regional programme basis where delivery is actioned through regional and local partnerships comprising local authorities, their partners and other local stakeholders. Programme priorities (regional/local) would be tailored to recognise and address specific regional challenges as well as capitalising on regional strengths, rather than the current ESIF 2014-20 Scotland-wide programmes which are more centralised/top-down and lack adaptability to islands' specificities.

The Comhairle's view of the Scottish Chapter of the UK Partnership Agreement, which defined the current Structural Funds Programmes, was that it lacked a sufficiently strong islands dimension or a strong policy commitment to support islands and peripheral areas and should have recognised the specific challenges and needs of geographical areas that suffer from severe and permanent natural or demographic handicap.

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?

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It's essential that under any future funding programme there is flexibility built in to tailor funding priorities and policies to any changing economic circumstances and account for specificities such as smaller population thresholds, smaller scales of project, smaller SMEs base, salary limits, and which can provide funding towards projects that may be considered of a higher risk. As programmes have moved more towards revenue funding, it should be emphasised that the UKSPF should be able to fund more Capital projects as these are of vital importance to places such as the Western Isles in terms of addressing long standing structural difficulties such as physical and digital connectivity and energy. In terms of improving regional competitiveness and parity with the mainland, the local region's basic infrastructure requires immediate investment.

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)?

A flexible approach to the range of local projects (based on a local and regional strategy and plan) would be welcomed by the Comhairle. It was clear from the outset that the EU Structural Funds Programmes (ERDF and ESF) were driven by the priorities set out in the EU 2020 Strategy for Smart (Business Competiveness, Innovation and job), Sustainable (Low Carbon and Resource Efficiency) and Inclusive Growth (Combating Poverty and Social Exclusion). These constraints will no longer apply if the UK withdraws from the EU. As regards Member State intervention, the key framework document was the UK Partnership Agreement which included a Scottish Chapter. In early discussions, the UK Government had agreed in principle that the UK Partnership Agreement, and any subsequent review of the UK Partnership Agreement and the devolved Scottish Chapter of it, would respect and implement, wherever possible, the COREPER (Committee of Permanent Representatives from Member States) provisions agreed on 19 December 2013: "...where appropriate, an integrated approach, to address demographic challenges of regions or specific needs of geographical areas which suffer by severe and permanent natural or demographic handicaps, as defined in Article 174 of the Treaty". While the final UK Partnership Agreement (3.1.6) did recognise the Highlands and Islands, as "…..the only region of the UK that falls within the scope of the EU definition of severe and permanent demographic handicap …..and which has a population density of 11.2 people per square kilometre", the consensus, certainly among Highlands and Islands European Partners (HIEP), was that the UK Partnership Agreement and the Scottish Chapter of it did not recognise or address sufficiently territorial/regional and sub-regional differences. Early in proceedings, it was apparent that the 2014-2020 ESIF programmes were going to be Scotland-wide which raised concerns about their adaptability and appropriateness for islands and mainland peripheries.

It is anticipated that post-Brexit Structural Funding will have close alignment with the UK Industrial Strategy, but it is also vital that cognisance is taken of rural, peripheral and fragile communities, island and regional specificities and geographic/permanent handicaps. The UK Government (24th July 2018) published a Written Ministerial Statement on the UK Shared Prosperity Fund (UKSFP) stating that they will also discuss with devolved administrations and other stakeholders how Local Industrial Strategies could work in the devolved administrations. The Conservative manifesto 2017 committed to establishing a UK Shared Prosperity Fund: 'to reduce inequalities between communities across our four nations…and targeted where it is needed most'. The Written Ministerial Statement added the objective of the UKSPF – '*the UKSPF will tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind. The UKSPF will achieve this objective by strengthening the foundations of productivity as set out in our modern Industrial Strategy to support people to benefit from economic prosperity.'*

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?

As islands with permanent geographic handicap, the agenda continues to be:

- infrastructural and digital connectivity;
- investment in sustainable growth sectors such as renewables;
- investment in new technologies;
- retention of our working age populations;
- relocation to the Western Isles of pre and post- Brexit jobs;
- affordable housing and rural resettlement initiatives;
- support for our traditional industries;
- control over our natural assets;
- investment in our private sector through an incentivising apprenticeship programme;
- investment in our education and skills;

- expansion of local UHI provision;
- support for aviation and ferries transportation; and
- an overall reduction in the cost of living and an improvement in the mobility of labour.

These are the broad areas the Comhairle would want supported by the Shared Prosperity Fund (SPF) and which would improve regional competitiveness. More specifically, funding should also be available for enhanced local decision making power on land and in the sea. Communities taking forward land purchase under Land Reform legislation should be supported with capital and revenue funding. Local decision making in the Marine Sector (Crown Estate leasing powers and Marine Regional Planning powers) is the latest manifestation of self-determination for islands and this could be specifically supported as a new/pilot area under the Shared Prosperity Fund. Large scale transformation programmes and projects should continue to be funded by the Shared Prosperity Fund and the optimum scenario would be for local authorities, agencies and stakeholders to determine what these should be going forward.

European Territorial Cooperation Programmes such as INTERREG, NPA Programme, and ERASMUS+ have been important to the Western Isles over the years, allowing a sharing of experiences and best practice with international partners, improved networking, and learning and student exchanges. Continuation of these programmes and participation would be welcomed.

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?

The UK Government (24th July 2018) published a Written Ministerial Statement on the UK Shared Prosperity Fund (UKSFP) which states that the UK Shared Prosperity Fund will be a **simplified, integrated fund. Simplified administration for the fund will ensure that investments are targeted effectively to align with the challenges faced by places across the country and supported by strong evidence about what works at the local level.** The UKSPF will operate across the UK and the UK Government will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage with the devolved administrations to ensure that the Fund works for places across the UK. All of this is to be welcomed if the aspirations match the rhetoric.

Overall, there has been insufficient accountability or transparency as to how funds are allocated in the Highlands and Islands and stakeholders have raised this continuously at the Highlands and Islands Territorial Committee. Generally, there has been poor communication between national delivery bodies and stakeholders for national schemes being implemented in the Highlands and Islands and this has resulted in a poor take-up of some of the schemes in the region. Some of the timelines between calls and submission deadlines have been challenging to say the least, especially given the required scale of some of the programmes.

Match funding continues to be a problem in a climate of public sector funding constraints and 100% funding of project activities or operations by the UK SPF would, as far as is possible, be welcomed. The ESIF application process is two staged and has been protracted which has impacted on timelines. The whole process from application, to governance, delivery and claims is very labour intensive, bureaucratic, audit intensive, and legally onerous on Lead Partners. Some Lead Partners have not taken up their ESF and ERDF provisional allocations, while others are reconsidering their position mid-process with regard to phase 1 continuation. Withdrawals from the programmes of this nature will have implications for Phase 2 allocations and the pace of programme commitment and spend going forward. The pace of spend has been slow and funds have been decommitted due to

N+3 failure. As regards local community development in the Western Isles, the Outer Hebrides LEADER programme has been performing well with a good pace of approvals, although the Comhairle understands that this is not the case across the Highlands and Islands, with concerns raised about disproportionate audit regimes and the IT system.

The Comhairle is represented on the Highlands and Islands Territorial Committee (HITC) at elected Member and Officer level, on the Rural Development Operational Committee at Director level, and the Islands Authorities' Chief Executives are represented on the JPMC, on a rotational basis. However, the HITC has not been the influential and decision making forum hoped for by stakeholders, in terms of determining how Transition monies are allocated in the region. The HITC should have a role in monitoring the impact of funding delivery in the Highlands and Islands Transition region, but in reality this does not happen. Furthermore, the overarching JPMC, which covers all 4 ESIF Funds, only meets twice a year and its composition, largely, is made up of people with no hands-on operational involvement in current ESIF programmes. The current ESIF programme's mid-term review has generated some positive recommendations, but there are concerns that these might be too late in terms of the proposed Brexit extension which is now October 2019 and the relatively advanced stage of the programmes.

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

The submission of claims as alluded to previously has been an onerous and protracted process. It is also an online process on a fairly rigid MI system (Eumis) and the amount of information or evidence that is required to back up a claim is considerable. It is currently reckoned that claims are taking an average of 82 days to process (SLAED, March 2019). Smaller organisations and some Third Sector bodies could not accommodate these timescales without experiencing some cash flow difficulties. Furthermore, due to imprecise and changing national guidelines, and also to stakeholder interpretation or perceived misinterpretation of these guidelines, there is often no guarantee of drawing down the full amount of ESF that is due as a result of ineligible expenditure.

That has been the Comhairle's experience thus far. The submission of claims should be simple and streamlined and not involve complicated cost models or onerous collection of data, and should involve as a precursor a reduced and simplified application processes. EU funding streams have historically been more onerous than domestic funding programmes in terms of document retention and audit regimes, but with the UK's withdrawal from the EU, future programmes will not be subject to the European Commission's audit regime.

Whatever transpires, It is important that the governance and all aspects of the delivery (including the claims regime) of the future programmes are established and agreed at the start, without subsequent deviation, and that must include stakeholder involvement in determining what has worked well and what has not with current EU programmes. It is worth noting that the Highlands and Islands European Partnership produced a Report in March 2014 "Technical Assistance Lessons Learned from the 2007-13 Convergence Programme in the Highlands and Islands (TALL)", much of which was overlooked in the consultation leading up to the current Structural Funds programmes 2014-2020, but much of which still holds true.