

## **FINANCE AND CONSTITUTION COMMITTEE**

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

#### **SUBMISSION FROM UNIVERSITIES SCOTLAND**

This response is submitted by Universities Scotland, the representative body for the Principals and Directors of the 19 higher education institutions in Scotland. We welcome the Committee's inquiry into Funding of EU Structural Fund Priorities in Scotland, post-Brexit. We have outlined our approach below and then answered the appropriate questions afterwards.

The successor programme will be new. This is both exciting but also potentially risky given there is as yet no clarity of the design of the successor programme. The priority from our perspective is that place should remain at the heart of its strategy. When discussing place in our response we mean the transformative economic development of place and the opportunity of individuals resident in that area.

Scottish higher education institutions (HEIs) interact with current European Structural and Investment

Funds (ESIF) across a number of activities, including innovation and skills development, to contribute to smart, sustainable and inclusive growth.

We want to play an even bigger role in developing through the successor to ESIF: regional capacity building; regional economies; innovation support; infrastructure and developing skills and training.

In Scotland, we estimate that our universities received £2.915 million directly in 2017-18 through ESIF<sup>1</sup>.

We would like to draw the Committee's attention to the fact that the University of Highlands and Islands (UHI) received approximately 35% of all ESIF funding that went to Scottish universities in 2017-18. As an example of the impact that ESIF investment can have, over the past twenty five years UHI has leveraged in a total of £250 million that has been used to develop the University and its contribution to the region (this sum comprises ERDF and ESF funding and additional co-finance levered in since the Objective One programme of 1994-99 to the present day). The outcomes of this funding include more people staying in the Highlands as well as development of the research capacity, skills and the labour market in the region, by working closely with industry and employers in the region.

The successor to ESIF should continue to have a focus on supporting economic growth and social cohesion, operating at a local level. HEIs should play an important role in the ESIF successor to achieve these outcomes. We believe that universities are in many instances, uniquely placed to support local growth. Universities can act as an 'anchor' institution, rooted in the local community but with a global reach. This allows universities to act as a

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<sup>1</sup> This was calculated by adding together ERDF and ESFA income collected by [The Higher Education Business & Community Interaction](#) (HE-BCI) survey.

focal point for networks, producing high-skilled graduates and generating and exchanging knowledge.

Universities are already making an important contribution to the Scottish economy and this is a strong basis to build and develop the ESIF successor. We look forward to contributing to the forthcoming UK Government consultation on the successor programme which we believe is imminent.

We believe that the current success of the ESIF can be attributed to a number of factors which should be replicated in the successor scheme. First of these are the long-term approach, approximately every six years, and the second is the focus on capacity building. Universities are committed to making the ESIF successor programme a success.

### *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?)**

Before we can answer this question there needs to be clarity on the purpose and key principles of the Shared Prosperity Fund.

There is an ongoing need for place-based projects that operate over a sustained period of time. There is also an opportunity to review how these projects are operated in terms of reporting and accountability, which we expand upon later.

The method of allocation of funding across the UK should reflect the overall aims of the successor programme. At this stage, without a consultation we don't know what that will look like. The Committee's question implies a singular approach but the possibility of a mixed system of allocation should not be discounted. For example, a UK-wide competition sitting alongside regional approaches taken forward with budgets allocated by different criteria could be a proposed approach.

#### **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?**

We wish to reiterate our belief that the priority should remain on place. Within Scotland there is potential for the role of the Enterprise and Skills Board, who oversee four agencies, to work on a coordinated approach given all four play a role in the delivery of structural funds.

We agree that alignment should be considered, but it should not be the primary consideration. There is a commitment for the UK Government to make a considerable investment under the Industrial Strategy, which includes, to some degree, a focus on place, but the ESIF replacement should still retain its own purpose of place, additionality and

region cohesion. If they are too tightly tied then there is an issue should one fund (in this case the Industrial Strategy) diverge.

**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?**

We should note that there is a distinction between the responsibility for allocation of overall funding to delivery bodies on the one hand and the responsibility for the identification of priorities and the allocation of funds and monitoring on the other. These might sit with the same decision makers or with different ones.

One of the strengths of earlier structural funds programmes in Scotland was the partnership approach, involving local stakeholders in the development of strategic priorities, project selection, deliver, monitoring and evaluation. For best use made of funding and realisation of programme objectives, this engagement of regional partners, working together, is essential.

**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 current system has been successful to an extent, allowing, in principle, for a more strategic, coordinated approach to ESIF delivery. However, in practice, it has often failed to achieve its objectives (and annual financial targets) due to insufficient involvement of delivery agents (in our case, the universities) at the planning stage. We would, therefore, recommend a detailed analysis of what has – and what has not – worked well in the current system, as well as previous systems, and use these ‘lessons learnt’ in the development of a customised approach for the new SPF. We do wish to draw to the attention of the Committee that the UK Government will have to consider carefully how the transition between ESIF and the successor programme is managed. It’s not unusual for members at the moment to be planning for up to four years before programmes come “online”. We are currently a year away and no detail has been forthcoming.

*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 main barrier to date has been the lack of a strong and inclusive partnership approach, as outlined above. The system has also proved to be very inflexible, unable to react to changing circumstances or to get swift responses to proposed changes.

Furthermore, the increasing bureaucracy, complexity and quantum of compliance/evidence documentation has proved to be a real barrier to many organisations participating – or achieving project targets. An inordinate amount of resource has been required for project administration, which is not a routine eligible expenditure for delivery agents. Any new system must address this issue, featuring audit requirements proportionate to the scale and size of the project.

**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)?**

There will need to be an element of flexibility built into the first (at least) iteration of the successor programme. Given ESIF as it currently stands is about local need, the uncertainty about what sort of Brexit the United Kingdom will undertake means that any skills/labour based initiatives may need to be adapted depending on the terms of the nation's exit from the European Union. This is particularly pertinent in areas such as the Highlands and Islands where the labour markets for several sectors in the region are significantly reliant on EU citizens. There would therefore be a need for a tailored approach to labour market support and skills provision post Brexit.

**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 with the previous response, this will depend largely on the final nature of Brexit, particularly in areas of labour market and skills. Care should be taken that the element of additionality of structural funds remains in place as this has been at the heart of so many transformational investments in Scotland over the past 20 years.

*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?**

We recognise that the current ESIF scheme can be bureaucratic and this can be of frustration to those involved in the projects. However, it is right that the audit and compliance processes ensure that money is being well-spent. We also believe it could be improved to ensure that the administration of ESIF funds is proportionate. The proportionality element would allow there to be a focus on continual enhancement with robust monitoring and evaluation rather than a paper exercise. It should be calibrated to the reality of the wider accountability frameworks being applied to the delivery partners.

Any successor programme should seek to remove the barrier that currently exists with ESIF regarding the medium term management of projects. Our members have not received sufficient information on future funding which prevents them from committing to longer term

undertakings like the recruitment of new staff or providing places on courses, which are a three to four year commitment in the case of undergraduate degrees, because there has not been confidence in receiving funds for more than two years. However, these issues are surmountable with a successor scheme.

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

The current system for claims has proved to be cumbersome, with frequent delays due to the complex system of checks. Any new system for the SPF offers the opportunity to improve on this system, making it simpler and more efficient. Greater use of different funding methodologies, such as unit cost models and lump sums, should be considered, which would reduce the likelihood of mistakes or mis-interpretation and subsequent problems with claims and audits.

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