

FINANCE AND CONSTITUTION COMMITTEE

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

SUBMISSION BY SCOTTISH NATURAL HERITAGE

Background

As recognised in the current Programme for Government, Scotland's environment is central to our prosperity and well-being as a nation and is "a powerful asset that can help create economic value for the country as a whole". It is important, therefore, that any future structural funds programme considers ways in which the environment can contribute to the country's sustainable growth and to the creation of quality jobs.

This can be done in two ways. Firstly, it should be a cross-cutting theme throughout the programme. One of the key principles of the current structural funds programme is to mainstream environmental sustainability. SNH played a leading role in advising on the incorporation of this principle into the Partnership Agreement that oversees all European funds (see the submission for the current programme provided at annex 1). A similar mainstreaming approach for the future UKSP Fund is essential to help achieve the UN Sustainable Development Goals that underpin the National Performance Framework and the Programme for Government. SNH is well placed to advise on and deliver this approach.

Secondly, the programme should include specific interventions which help to maximise the contribution the environment can make. SNH is currently the Lead Partner for 2 such interventions:

Green Infrastructure Strategic Intervention – improving the quality, accessibility and quantity of green areas in Scotland's towns and cities; providing more and better opportunities for people to improve their health and wellbeing; and addressing inequality and social inclusion by creating new green space and improving existing community sites in deprived areas and for communities living close to derelict land. This Fund is taking an innovative approach to tackling some of the endemic and persistent social and economic challenges of multiple deprivation.

Natural & Cultural Heritage Strategic Intervention - supporting the development and promotion of the natural and cultural heritage assets of the Highlands & Islands area where these have the potential to create local economic and social benefits, primarily through an increase in visitor numbers and spend in remoter areas.

There is strong demand for both of these Strategic Interventions. We would hope, therefore, that both SIs could roll forward in some form into the new Shared Prosperity Fund. Both demonstrate that a wide range of economic, social and environmental benefits can be delivered with what are relatively small budgets in the context of the ERDF programme overall.

As a national organisation delivering locally, SNH is also involved in LEADER to varying degrees across the country according to local circumstances and priorities. We aim to ensure knowledge exchange and that the role the natural heritage can play in supporting rural industries and rural skills is embedded in Local Action Plans. Because the sums of money involved have been smaller, LEADER has been able to be applied more flexibly and to be accessible to a broader range of third sector organisations than structural funds have.

SNH Response to Questions posed by the Committee

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?)*

We have no specific views on this, other than to say that we would hope that the scale of the available funds in Scotland would at least match those available under the current programme. Also, given the lengthy preparation time required in setting up the programme and then the long-term nature of the outcomes that this funding is designed to achieve, it needs to be committed over a sufficiently long timescale (preferably a minimum of 5 years).

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?*

The Scottish Government's National Performance Framework is the key reference point when deciding priorities. The current structural funding priorities fit within that framework, are broadly drawn and therefore capable of being adapted to align with changes in future national and regional outcomes. There is value in retaining this structure, at least for the first Shared Prosperity Fund programme, to ensure continuity in delivering key outcomes.

In setting priorities, the focus should be on encouraging innovation – trying new things, rather than continuing to fund 'business as usual'. We also need to be better at sharing, communicating and celebrating what is achieved. If successful, approaches tested using structural funds are more likely to be able to attract funding from elsewhere and become mainstream.

We would argue strongly that the role Scotland's environment plays in underpinning our economic growth, improving people's quality of life and addressing social injustice should be recognised in the priorities which are set. This could be achieved by taking a broader, place-based approach to investment – moving from focus on single outcomes, to those, like LEADER, which provide multiple benefits to communities and reflect local needs.

The programme should support the Scottish Government's aspiration for a carbon neutral economy by demonstrating the role of the environment in climate change adaptation, particularly in reducing CO2 emissions, providing an alternative multi-benefit approach to flood risk management, in reducing air pollution and 'the heat island effect' in our towns and cities etc.

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 Scottish Government should have oversight for the delivery of structural funding in Scotland, setting the overall priorities and processes for the programme and overseeing its delivery. Thereafter, the nature of individual funding priorities will determine whether they are best managed

at: national level, by Scottish Government or by national bodies such as ourselves; regionally, perhaps by Regional Economic Partnerships; or locally as currently for LEADER.

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?*

There is strength in the Lead Partner role in allowing organisations such as SNH, who have experience of delivery on the ground and the right networks, to play an active role in delivering the structural funds programme – and in so doing to take responsibility for delivery and take on some of the risk. We would like to see it continue in some form. However, it has been only a partial success in other respects. It was introduced to ease the administrative burden on those delivering projects on the ground (with some of that work to be picked up by the Lead Partners) and similarly to reduce the role expected of the Managing Authority. In practice, it has added a layer of complexity that has meant the burden on both Lead Partners and delivery organisations has remained high and the current administrative burden associated with accessing SI funds is a disincentive for community and voluntary organisations. Also, the Managing Authority has been under-resourced which has meant that at times they have been slow to respond to Lead Partner queries and to process claims, which in turn has financial and reputational risks for 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?*

The key barrier of the current EU Structural Funds programme is that the administrative, financial and audit requirements are stringent, complex, difficult to understand and inflexible. The funds therefore favour large public bodies, such as the local authorities, with previous EU funding experience and with the required level of admin support and expertise. A lighter touch approach is required.

We have, through our Green Infrastructure Community Engagement Fund, supported a number of voluntary and community organisations to access ERDF funding for projects to encourage communities to engage with, and make better use of, their greenspace. While the projects and outcomes are good, the organisations have found the administration of their project very difficult, and delays in processing claims both frustrating and a major cashflow risk. The risks of accepting structural funds for smaller organisations are disproportionately high given the impact any claw back of funds could have on their long-term viability.

It can be difficult to adequately demonstrate the requirement that ERDF funding is being sought as a last resort. There can often be other potential funders in theory, but in practice their funding is not accessible because of their own scheme rules, or funds are closed, or timescales don't match or they don't consider projects at the scale proposed etc. We'd suggest relaxing this requirement in any future scheme to make it easier for good projects to proceed.

Where investment is made in capital works, the burden of future maintenance and community engagement falls on the grantee. This can be a major disincentive preventing good projects coming forward. Allowing a greater proportion of spend to go on these elements would help guarantee the long-term success and legacy of the projects which are supported.

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)?*

Our experience in administering funds has been using a Challenge Fund approach. This has a number of strengths in encouraging project ideas, ensuring fair competition and that the best projects get funded. However, it can be inflexible and creates a funder / grantee relationship. A co-production approach, identifying suitable projects and then delivering them through partnerships may be a better approach for local projects to allow greater flexibility of approach and better delivery of multiple outcomes.

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?*

Given that EU structural funds are significantly more complex than other funds, it's unlikely that organisations would choose to access them unless they were the only and most effective means of supporting the activities. However, certainly one weakness of the current approach is the degree of disconnect between structural funds and other EU funding programmes (such as CAP, Interreg, Horizon 2020, LIFE etc) and other national economic and social funding programmes. In determining priorities, it would be helpful to look across the piece at what each funding programme contributes or could contribute towards delivery of the agreed priorities, and whether a simplification, rationalisation, joining-up or re-focussing of resources would strengthen delivery and provide efficiency gains.

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?*

Under any future arrangement it is important that the use of public funds is carefully controlled and monitored to ensure that spending effectively delivers outcomes and to reduce the risk of waste or fraud. We believe that those awarded funding should be prepared to commit to undertaking monitoring and evaluation during the delivery phase and for a reasonable period of years thereafter. To ensure good value for money, monitoring and evaluation should be proportionate to the funding level, outcome and expected beneficiary group. This change would be welcomed by smaller applicant groups.

We would also welcome ways to streamline audit scrutiny to make it less daunting for delivery organisations.

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

The current requirement for expenditure to be defrayed (i.e. to have left a grantee's bank account) before being paid is a barrier to some organisations as it introduces significant delays between spend being incurred and receipt of the money. Allowing payment of claims on receipt of invoices, as is the case with most other funders, would be preferable.

Scottish Natural Heritage

25 April 2019

ANNEX 1**2014-2020 Structural Funds Programme**

The application of horizontal principles and policy objectives for the implementation of the ESI funds (European Structural and Investment funds).

**For the Draft Scottish Chapter of the Partnership Agreement
Section 1.5.3 on Sustainable Development (with reference to Article 8 of CPR).**

Drafted by Claudia Rowse, SNH on behalf of the Environmental Sustainability Steering Group

1. Sustainability is fundamental to Scottish Government's purpose of enabling Scotland to flourish. It recognises that the benefits of sustainable economic growth will be shared by all Scotland's people, helping to secure a high quality environment and a sustainable legacy for future generations. The Government's updated Economic Strategy promotes economic growth and environmental responsibility as mutually reinforcing.
2. Scotland's Environment Web reports the state of our environment as being generally good. Implementation of environmental legislation including the Water Framework Directive has seen significant improvements in water quality. Significant concerns remain; these include localised air pollution, diffuse pollution affecting water and soils, increases in waste, and loss of biodiversity. These affect human health, our wildlife and our economic welfare. The funding programmes will address these issues, as well as contributing to protection of the water environment as set out in the Water Environment Water Services Act.
3. The most significant environmental challenge is climate change. Scotland has ambitious targets for reducing greenhouse gas emissions under the Climate Change (Scotland) Act 2009. Energy efficiency in all sectors and behavioural change will be important to help Scotland achieve its targets, and investments across all Funds will need to address this. The Scottish Adaptation Programme, to be published in 2013, will set out Scottish Ministers' strategic approach to climate change. In addition to the 20% of the funds that will be allocated to climate change measures, all investments will take Scottish Government priorities of climate change into account. Land use, including woodland and peatland restoration, is important for reducing emissions and building the capacity to store carbon.
4. The Scottish Government is committed to the national resource efficiency strategy, Safeguarding Scotland's Resources, which sets out priorities for efficient use of resources with reference to the environment and the economy. Investments will address the priorities set out in the national resource strategy and will contribute to delivering Scotland's Zero Waste Plan. This will include using materials efficiently, avoiding waste and reusing products because they deliver significant benefits, both financially and environmentally.
5. The Scottish Government is committed to the EU goal of halting biodiversity loss and the degradation of ecosystems by 2020, and seeking their restoration. Our 2020 Challenge aims to increase biodiversity on land and in our seas, and support healthy ecosystems, maximising the benefits of a diverse natural environment and the services it provides. Protected places, such as those identified as part of the Natura 2000 network, are key parts of healthy

ecosystems. The Scottish Government target is to bring the Natura network and all other designated nature conservation sites into favourable condition.

6. Scotland's seas are economically productive with a wide range of human activity depending on them. They are generally clean and safe. They support a diverse array of habitats and contain nationally and internationally important species. There are two key pressures on Scotland's marine environment that are both significant and widespread – the effects of climate change and the impacts of fishing on marine species and habitats.
7. Climate change increases certain environmental risks, most notably flooding but also linked to the introduction and spread of non-native species and introduced animal and plant diseases. Plant health controls in Scotland are based on the EU Plant Health Regime. They control the import, movement and trade in plants and they include measures to control the spread of pests and diseases. The Scottish Government wishes to encourage everyone to take responsibility for biosecurity to avoid the devastating effects of animal disease. This is vital in terms of controlling and eradicating any notifiable diseases, and more generally in terms of maximising livestock health, welfare and productivity in Scotland.
8. The principles of sustainable development and resource efficiency, and the priorities set out above will be delivered by a dual approach across the ESI funds: by mainstreaming sustainability across all projects, and through specifically funded actions within the Thematic Objectives. All Programmes and projects must be able to demonstrate that the economic, social and environmental impact has been considered; that environmental integration requirements are fully realised and the opportunity to maximise positive impacts are explored. Investments will be required to meet nationally recognised environmental benchmarks, for example, BREEAM Excellent and FSC timber.
9. In line with the polluter pays principle, programmes will not make payments for complying with established environmental legislation or to support any action that is a cross-compliance requirement.
10. Use of green public procurement guidance will apply across all the Funds. Where contract values exceed the EU procurement threshold, the EU procurement directives will help ensure avoidance or reduction of environmentally harmful effects of interventions.