FINANCE AND CONSTITUTION COMMITTEE

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

NORTH AYRSHIRE COUNCIL RESPONSE

North Ayrshire Council welcome this inquiry and would be happy to discuss any aspects of this submission. The Council has extensive experience of EU funding and delivering programmes to address the diverse needs and opportunities of our communities and businesses across North Ayrshire's strategic investment sites, towns, rural and island communities. Replacing EU funding with the right type and level of domestic funding is critical if we are to achieve inclusive growth in post-industrial regions like Ayrshire.

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?)

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?

3. In terms of the proposal for a UK Shared Prosperity Fund (UKSPF) - 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?

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?

Stark levels of regional inequality in the UK have been well-documented, however this is also an issue impacting the Scottish economy and our ambitions of inclusive growth. The Fraser of Allander Institute (2018) have recently highlighted this in their economic commentary: GVA per head in Edinburgh is nearly 2.5 times higher than in East and North Ayrshire. In the past 20 years this gap has widened – GVA per head in Edinburgh has nearly doubled since devolution, with growth in East and North Ayrshire around half that rate.

Scottish Government's Economic Strategy (2015) states that uneven growth is evident within Scotland, with the gap in output per person between Edinburgh and East & North Ayrshire highlighted as a specific example. In 2018, at an SCDI Forum, the First Minister said that regional inequality is larger than Scottish Government would like. This 'regional gap' was also picked up in a report on Scotland's economic performance in June 2018 by Scottish Parliament's Economy, Jobs and Fair Work Committee Inquiry. The Committee made the recommendation that: 'it is vital that the gap between low-performing and high-performing regions in Scotland is reduced.'

North Ayrshire Council recognise that in an increasingly challenging economic environment, we have to work in new ways in order to deliver inclusive growth. As a result, working in partnership with the Scottish Government's Office of Chief Economic Advisor, the Council piloted the 'Inclusive Growth Diagnostic'. The main purpose of the Diagnostic was to identify constraints and opportunities for driving inclusive growth in North Ayrshire in order to prioritise actions to address them at a time of constrained public sector resources. Jobs density was one of the key constraints identified by the diagnostic – indeed North Ayrshire has one of the lowest job densities in Scotland – and this highlights that the Council is unable to achieve inclusive growth without a change in national policy and investment, and as such investment should be targeted where there is most need, for example areas of market failure, and impact will be greatest. The Council is keen to share learning on the diagnostic as an important tool for targeting resources.

Less prosperous regions in the UK will lose access to £2.4billion a year for social and economic development – comprising EU Structural and Investment Funds (ESIF) and domestic match funding - unless successor or replacement frameworks and funding programmes are put in place. At the heart of the proposed approach to a new UK Shared Prosperity Fund (UKSPF), proposed by the UK Government, should be the need to reduce regional inequality and achieve inclusive growth post-Brexit. This will require resources to be targeted at less prosperous areas.

Resources allocated to this successor programme need to compensate for the loss of EU funding and provide additional resources to match the scale of national and regional objectives for achieving inclusive growth.

The failure of current ESIF programmes and approaches to address the different challenges and opportunities faced by Scotland's regional and local economies was recognised in 2018 by the Scottish Parliament's Economy, Jobs and Fair Work Committee. Following an inquiry into existing and future programmes, the Committee concluded that this failure should be addressed in successor programmes if inclusive growth is to be delivered in Scotland. Similar conclusions and recommendations have been reached at UK level by an All Party Parliamentary Group (APPG) investigating post Brexit funding in 2018, and by a House of Commons Committee Inquiry into the role and function of replacement funds in 2019.

UKSPF resources need to be allocated in fair and transparent ways that give priority to the development needs of less prosperous regions. A competitive process would not be helpful and can be resource consuming. UKSPF should not fall within the Barnett Framework. Retaining the existing ESIF formula of territorial share for the four jurisdictions (Scotland, England, Wales and Northern Ireland) would allow UKSPF to avoid a gap in support for the UK's less prosperous regions. The lack of significant convergence in economic performance across the UK persists and provides further rationale for retaining the existing formula on territorial share, at least for the initial period.

UKSPF needs to be additional to existing streams of local growth funding and not top-sliced from existing funding streams. It should be aligned with – but not used to compensate for cuts in – other domestic programmes.

NAC's experience is that support allocated over a sustained period is more likely to achieve objectives than a series of disconnected, time-limited and small scale initiatives. The seven year period currently operated by EU funding should be considered. We believe a multi-annual approach is necessary to address the complex and deep-rooted causes of regional inequality. This approach is further recommended as it would facilitate longer-term strategic planning, attract additional investment and underpin subsidiarity and a multi-level governance approach.

In terms of levels of decision making and autonomy, NAC believe subsidiarity will be critical if the UKSPF is to succeed. In Scotland there is an opportunity to link post-Brexit policy and programmes to the outcomes of the Enterprise and Skills Review, regional growth strategies including City and Growth Deals and to the UK Government's Industrial Strategy which aims to rebalance the UK economy. Each of these frameworks recognise the importance of a place-based dimension to achieving inclusive growth. As the UKSPF is a UK fund, the UK Government should set broad fund guidelines. Respecting the devolution settlement, responsibility for setting the strategic framework and monitoring delivery of the UKSPF should rest with the Scottish Government. Decisions on the right mix of funding and means to delivery interventions to secure inclusive growth will be much more likely to succeed if further devolved to reflect Scotland's diverse regional economies. UKSPF's design should also facilitate the coordinate use of capital and revenue investment.

One of the difficulties with the Scottish Government's current approach to ESIF has been the desire to implement a central framework. Programmes need to be structured in ways that deliver support more efficiently, flexibly and with more local control. Local authorities can play strong and effective roles at the heart of decision making and management arrangements for the UKSPF. The drive to support inclusive growth requires flexibility at the regional and local level to determine the right mix of funding to business, communities and investment in economic infrastructure. Intervention works best when developed and delivered at the right spatial scale.

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?

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)?

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 noted above, local input is required to determine the right mix of funding required. Even within a local authority boundary, economic, social and demographic needs can vary significantly. Rules need to be reformed to enable delivery of more effective support in the places that need it most. UKSPF should avoid being overly prescriptive in terms of project eligibility - a flaw in EU programmes. The new Fund needs to support projects that are strategically significant at a regional or local level in terms of promoting sustainable inclusive growth. This is likely to include activity which currently benefits from EU support, such as business competitiveness and employability and skills programmes. Where appropriate, UKSPF could also include support for capital project activity eg development of sites and premises for business and industry, transition to the low carbon digital economy, development of low carbon transport infrastructure.

The EU Structural Fund process has tended to become more arduous and time-consuming over the decades, however this has not necessarily ensured that programmes are more effective. Increasingly complex, excessive and costly bureaucracy has discouraged potential applicants. For example, repayment can be required if EU audit and compliance rules are not met fully and it is a feature of EU programmes that rules can be subject to clarification and amendment as programmes progress.

In order to achieve stronger strategic focus and reduce risk of the financial error rates experienced in previous programmes, Scottish Government sought to target ESIF 2014-2020 funds at a small number of Strategic Interventions governed by relevant national/regional Lead Partners. Various factors – including lengthy delays, restrictive frameworks, complex and inadequate systems and guidance – have impacted on ESIF's ability to meet expenditure targets in Scotland.

UKSPF Programme targets should be set to reflect the contribution they make to narrowing inter and intra-regional disparities and other national inclusive growth outcomes, using key inclusive growth indicators such as GVA and labour market participation. NAC are keen to share learning from the Inclusive Growth Diagnostic.

Timeframes for implementation need to be flexible and realistic. Tightening public sector budgets make it increasingly difficult for local authorities and third sector organisations to identify match funding and intervention rates need to be increased to reflect this.

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?

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

As noted above, the evaluation process should align with the National Performance Framework and Scottish Government's inclusive growth measurements.

By ensuring alignment with national procedures and cutting excessive documentation retention requirements, significant savings could be made in UKSPF administration and monitoring.

Scottish Government's online system for handling applications/claims/reports is critical to programme management however this did not achieve full functionality until midway through Year 4. It still takes around three months on average for claims in Scotland to be progressed. This continues to impede strategic progress towards improving the rate of programme spend which was identified as necessary following an earlier Scottish Government Review.

AOB

10. Any other relevant views in relation to the future funding arrangements for EU structural funding priorities in Scotland.

Meaningful consultation by the UK Government on the new UKSPF is essential, however time is running out and there has been no formal consultation with local authorities. This is disappointing. To avoid a hiatus in activity, UKSPF needs to be in operation from January 2021 and, as such, key framework and financial decisions are needed soon, particularly to allow for budget and programme planning.

Historically, many of Scotland's regions have benefitted from the EU's use of regulatory and funding frameworks to target support to areas which face socio-economic, and geographic, barriers to growth. Significant progress has been made, however the use of targeted frameworks needs to continue post Brexit if Scotland's less prosperous regions are to maximise opportunities and deliver inclusive economic growth. Replacing EU funding with the right type and level of domestic funding is critical if we are to achieve inclusive growth in post-industrial regions like Ayrshire.

The scale of the task is significant. Taking the Southern Scotland NUTS2 region as an example, this European statistical region came into effect in January 2018 and comprises North Ayrshire mainland, East and South Ayrshire, South Lanarkshire, Dumfries & Galloway and Scottish Borders. The Office for National Statistics recently produced a breakdown of UK regional economic output in the last 20 years[1]. This demonstrated that Southern Scotland had lower economic output per head (Gross Value Added) than other parts of the UK - including the Objective 1 areas of West Wales & the Valleys and Cornwall & the Scilly Isles. Yet, because parts of the region were subsumed into two larger NUTS2 areas, no part of Southern Scotland benefited from the more flexible and generous EU structural funds or state aid regime available to areas categorised as EU Objective 1 or Transition regions. With the responsibility for creating effective regulatory, policy and funding frameworks to deliver inclusive regional economic growth due to be re-patriated, governments need to ensure that successor regimes address this anomaly post Brexit.

[1] Office for National Statistics Regional economic activity by gross value added (balanced), UK: 1998 to 2017