

FINANCE AND CONSTITUTION COMMITTEE

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

SUBMISSION FROM SOUTH OF SCOTLAND ALLIANCE

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 South of Scotland Alliance is a partnership between Dumfries & Galloway Council, Scottish Borders Council and Scottish Enterprise, which is primarily concerned with the economic development of the South of Scotland. One of the Alliance's key advocacy positions has been that there needed to be greater recognition of the shared economic challenges of our largely rural region in the South of Scotland. This has been recognised across the Scottish Parliament, through the unanimous support for the Scottish Government's legislation to create a new Enterprise Agency for the South of Scotland which covers Dumfries & Galloway and the Scottish Borders.

The UK has significant imbalances between its regional economies, and over a number of decades, the main policy instrument for addressing this has been European Union Structural & Investment Funds. These programmes recognised the importance of investing in regions which were lagging behind others economically, so called 'less developed regions', in order to address the disparities across member states. This funding has been a significant boon for a number of areas across the UK. Whilst there have been successes, there remains an ongoing challenge in the UK and particularly within Scotland.

We recognise that at this point in the process of the development of the UK Government's Shared Prosperity Fund – which was due to be consulted upon in 2018 – each of the devolved administrations in the UK will be making their case to at least maintain the current levels of funding which have been delivered in the last programme period of 2014-2020. The present levels of funding for Scotland which were based on the European Unions' statistical NUTS 2 (Nomenclature of Units for Territorial Statistics) areas as they were in 2013, which identified Scotland as having three 'more developed regions' (Eastern Scotland, North East Scotland, and South Western Scotland) and one 'transition region' (Highlands & Islands). The total envelope of funding for Scotland would have been determined based on that understanding.

This time though there are five NUTS 2 areas in Scotland i.e. Eastern Scotland, Highlands and Islands, North East Scotland, West Central Scotland and Southern Scotland. GVA per head data indicates that Southern Scotland would be defined by the EU as 'less developed region' because of its low GVA per head. This means that had the UK been participating in the next round of EU Structural Funds, significant additional resource might have been attracted by Southern Scotland as a 'less developed region', and this would have resulted in an overall increase in the funding available to Scotland.

We believe that because of this change in NUTS 2 areas that there is strong case to be made that Scotland should see an increase in its funding through the UK Government's Shared Prosperity Fund.

In relation to the design of any future funding programmes, the Alliance believes that there needs to be a continuation of a seven year multi-annual framework, similar to what was done previously, as this will provide greater certainty and a longer term approach to development. Also programmes need to be developed and managed regionally and locally rather than nationally to ensure effective ownership by local, regional and national stakeholders and to gain maximum value for money and leverage other resources.

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 priorities for delivering funding should align with the Scottish Government's Economic Strategy, particularly its focus on supporting regional and place based approaches to economic development. Furthermore, this approach should be predicated on the distinct regional economic challenges of different parts of Scotland –the virtue of which has been recognised by Scottish Government and Scottish Parliament with the establishment of the new South of Scotland Enterprise agency. This 'place-based' perspective recognises the common and distinct economic challenges faced in the South of Scotland.

The LEADER programme currently funds community led local development projects in rural areas. It is vital that this community led approach to supporting rural development is included in future funding programmes.

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 believe a high level UK wide framework should be set by the UK Government which outlines a transparent model for allocation of funding to devolved administrations – in a similar manner to the role which the EU played with its Structural Funds. It is considered that there is merit in a continuation of the funding arrangements which were used previously to distribute EU funds. This phased approach was based on the GVA of a region, and would be banded in a similar manner :

- Less Developed Regions : less than 75% of the UK average,
- Transition Regions : between 75% and 90% of the UK average
- More Developed Regions: Over 90% of the UK average.

This approach should be translated into the Scottish situation by the Scottish Government taking account of the requirements for inclusive economic growth. As mentioned above, in rural areas there should be a programme for community led development projects which continues the work of LEADER based on existing local areas.

We see a key role for Scottish Government in providing a scrutiny role on the use of these funds. Importantly, this should focus on delivering outcomes rather than an audit of inputs.

Beyond this, decision making and implementation of funds depending on the type of programme should be delegated to regional and local levels. In the case of the South of Scotland, the regional level would be the South of Scotland and the local levels would be Dumfries and Galloway and the Scottish Borders.

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?

We believe that the introduction of the system of national strategic interventions using national lead partners has not been successful and do not wish to see these being continued into future funding programmes. Within Scotland as mentioned above interventions need to be made on the basis of regional and local programmes. This would mean the South of Scotland being recognised as a region for this purpose and local programmes should involve the replacement of LEADER with a streamlined and less bureaucratic community led development fund.

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 most significant barrier has been the issue of match funding for projects. Current intervention rates (whilst these have been varied) have been very challenging, and have failed to take into account the effects of the reduction in public spending. This is also particularly challenging for third sector organisations. The significant constraint on public expenditure for the availability of match funding must be taken into account when considering the design of any forthcoming funding programmes.

The complexity of the process has also been a particular challenge and has restricted the take up of funding. It has even discouraged organisations which you would expect to act as a lead partner. The compliance burden associated with many EU funds should be significantly reduced to take account of national audit procedures.

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)?

Ensuring there is flexibility in the range of projects which can be supported is crucial. It should be recognised that the measures which are needed to stimulate inclusive growth are not uniform across Scotland. Reflecting a place based approach – projects should be determined by the particular combination of circumstances found in different localities. We would urge maximum flexibility in allowing regional and local actors to pursue the projects which are the best fit for the local area, and contend that funding rules and compliance should not be so prescriptive as to discourage projects.

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?

It is considered that the main post Brexit funds should be distributed at a regional (i.e. South of Scotland) level and the more local LEADER replacement fund should be distributed at a local level (i.e. Dumfries and Galloway and Scottish Borders) , Such funding should involve both capital and revenue. There should be flexibility in terms of the types of interventions in order to ensure effectiveness in the different regional and local economies.

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?

As mentioned previously, the current system has significant problems owing to its overly bureaucratic nature. There is a need to streamline the process to ensure that relevant data is only required to be provided once. The timeline for needing to retain documentation is also overly long and should be reduced.

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

Consideration should be given to an advanced payment model. This would reduce the burden on particularly small and third sector organisations.