

FINANCE AND CONSTITUTION COMMITTEE

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

SUBMISSION FROM ZERO WASTE SCOTLAND

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?)

Scotland's share of post-Brexit funding should be determined, primarily, on a needs-based format. This would ensure that the funding is allocated to areas that need it most and therefore the best use of it can be made.

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 existing structural funding priorities should be maintained but the activity evolved to ensure that learning from existing activity is incorporated into any new funding approach. For Zero Waste Scotland the priorities of:

- improve employment opportunities
- make Scotland more competitive in business
- ensure our communities are healthy and sustainable
- building a sustainable, low-carbon Scotland

are most relevant and the Programmes we are developing, particularly in relation to the development of a Circular Economy in Scotland, will be able to positively impact on these priorities.

An alternative approach could be aligning the priorities with the Scottish Government's National Performance Framework.

Consideration could also be given to how the existing ESIF funds have been spent within the LUPS and H&I regions to ensure that, if appropriate, the allocation of funds between the LUPS and H&I regions for future structural funds can reflect the capacity of these regions to deliver activities that contribute to the priorities.

Zero Waste Scotland values the opportunity to access the significant funding from Europe to accelerate our work. We would anticipate working closely with the Scottish Government to understand the funding landscape beyond Brexit; to consider supporting options which drive the transition to a Scottish Circular Economy, accessing public (and private) funding as investment leverage from within and beyond our borders.

Zero Waste Scotland identified work with SMEs in our Strategic Intervention. Experience is showing that we would be able to better achieve our outcomes by expanding the scope of our funding to working with non-SMEs and the public sector. This would allow the development of wider & more strategic partnerships across a range of stakeholders, in

support of scalable & impactful circular economy and resource efficiency opportunities, thereby improving employment, infrastructure and productivity in Scotland.

We believe significant success in the future could come with combining public funding with other forms of finance including private match and loans. There are limitations in the availability of match funding for projects. Zero Waste Scotland has limited options to access match funding as our main source has been from our existing funding (i.e. Scottish Government Zero Waste and Energy sponsors). With the trend being a reduction in public funding, this has an impact on what we can use for match. We also must balance funding ESIF projects with other priorities required by our funders, for activities that are not within the scope of the ESIF Strategic Intervention. While we thought we could partner with other funders this has had limited success with only the Climate Challenge Fund providing match funding for a limited period.

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?

Zero Waste Scotland considers that although a regional approach has its advantages on a project basis, to ensure the best alignment of outcomes at a national level, the Scottish Government is best placed to allocate funding and determine the accountability processes for the future.

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?

A key benefit of enabling Lead Partners to develop Strategic Interventions is that organisations which have a thorough understanding of how best structural funds can be used to support activity to contribute to the Fund's priorities are able to develop interventions for the Scottish Government, as Managing Authority, to consider. This approach creates a governance framework that is robust and ensures the Funds are used effectively and appropriately.

Encouraging Lead Partners to consider multi-year milestones would provide an additional level of flexibility in implementation and reduce the potential for Lead Partners to chase annual targets at the detriment of longer-term benefits.

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 setup of programmes of activity following the agreement of the award of structural funds can delay the commitment of funding to the individual projects. Grant Programmes have a greater lead time due to the requirement for an application process and where this Grant

Programme seeks to support innovative projects the assessment and due diligence period can take longer than anticipated.

Additional challenge with Grant Programmes is the reliance on third parties and potentially sub-contractors to deliver on the activities, incur expenditure and submit claims. Often this can result in underspends coming to light late in the projects lifecycle when there is insufficient time to reallocate the funds.

It would be important to ensure clarity on the rules and evidential requirement for claim expenditure to maximise the value of structural funds claimed.

Long term commitments of funding and support to our customers is vital. The circular economy is still at a developmental stage; projects are high risk (high reward for success) and need public funding to progress. Our customers need confidence to partner with us to move their ideas forward. Zero Waste Scotland needs to continue to offer that confidence with investment over the medium term. In addition:

- An annual/biannual operations approach would allow us to amend and adapt our approach to meet need without losing the benefits of long term certainty. This is particularly important in establishing strong pipelines with the freedom to horizon scan.
- It is important that we can continue to look at a varied approach to deliver at national, regional and sectoral levels.
- We would welcome development of a joined-up approach regarding social outcomes and other horizontal themes. We have found it challenging to consider the wider impact of projects when the ERDF reporting requirements put such a high emphasis on the quantitative outputs and result (i.e. CO2, jobs and tonnes).
- Our experience has been that more in-depth funding for SMEs could have had better results. We would now, on reflection, have lowered our targets to support such high numbers of SMEs and looked to provide more in-depth support to a smaller number with increased per head spend. This is something that should be considered to realise the best outcomes from future ESIF programmes.
- Our experience has been that funding for SMEs is perhaps 'saturated' with many agencies targeting businesses in this category married with the time pressures that SMEs must engage with funding programmes. We would recommend close co-ordination of future ESIF funding within the wider funding landscape in Scotland to ensure it is adding the most value. One way of ensuring this would be to encourage as wide an audience as possible in the scope of the funds (i.e. non-SMEs and public sector).
- Although some commitment was made by lead partners at the outset, the expected level of co-ordination within the wider funding landscape in Scotland did not meet its potential, leading to many SIs working in similar areas. It is recommended that Scottish Government actively co-ordinate with Lead Partners for future development investments.

Risks

- The yet unknown impacts of Brexit on regional funding could result in less funding being available, therefore it is important that value is at the forefront of any decisions regarding accountability and compliance.
- In our experience of working with micro business and community-based organisations, as much as possible must be done to allow them to focus on delivery rather than administration. Specifically, the level of evidence required for defrayment of expenditure, could hinder the ability to support small and community-based organisations who are less able to take on such a burden.

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)?

Zero Waste Scotland considers it would be advantageous for structural funds to focus on funding specific outcomes or purposes providing there is flexibility in the approach taken to achieve the specific outcomes. This would enable Lead Partners to develop Programmes which could support multiple approaches and if an approach is proving particularly successful to focus activity on this to maximise impact.

Where the Scottish Government is particularly keen to see a specific outcome achieved they should work with a relevant Lead Partner to develop a Programme of Activity which will contribute to the outcome.

The ERDF National Rules required any reclaimable staff to work 100% of their time solely on ERDF activity. As a relatively small organisation this has been difficult particularly within corporate service functions (HR, Finance etc) who work across the whole organisation. Operationally, there has been a need to re-structure teams to accommodate this which has taken time and had some impact on delivery. It was expected that the 15% uplift to staff expenditure to cover overheads would cover any additional expenditure, however this has not been sufficient. Organisations that have received financial support via Zero Waste Scotland's ERDF funded Programmes have also reported similar experience of the restriction this requirement places on staff.

Formal provision for a "discovery phase" in future funding rounds could lead to stronger programmes and more realistic pre-intervention estimates of impact. Estimating expected impact for targets was challenging for some of our more innovative interventions, where the project mix, timescales, and success rates could not be modelled on past activity. This kind of ground-breaking support is something that ERDF funds have been well placed to support, but future programmes might benefit further from a more iterative approach to funding approval, piloting of interventions, revised estimates of impact, and a final decision on scale of funding.

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?

N/A

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?

Greater interaction between the Managing Authority and Lead Partners on monitoring, evaluation and compliance activities would improve the efficiency of these tasks through a greater understanding of the specific requirements.

It is critical that management information systems to support the claims and compliance process are robust, easy to use and fulfil the requirements of the Managing Authority, Lead Partners and Delivery Agents with strong reporting capabilities.

In terms of improvement, there might be scope for better co-ordination of how different organisations approach common evaluation challenges across the wider programme regarding how common indicators are defined and reported. Zero Waste Scotland could bring our extensive experience of measuring carbon, using Scotland's innovative Carbon Metric for waste and materials, and would welcome discussion about opportunities to adopt this more consistently across Scottish partners. Other organisations might have other specialisms and greater alignment of generic approaches to issues such as measurement of lifetime impact or attribution could aid targeting of future funding rounds.

The circular economy has real opportunity to support social justice outcomes through improving local job creation and employability. There are however challenges associated with this as often technologies and circular economy business models are at an early stage and need time to develop. It will only be possible to evaluate the full impacts of the social outcomes over the longer term. Future ESIF programmes could give greater support and guidance for how social outcomes, and other horizontal themes, can be better considered at the point of awarding grants and contracts to recipients. These outcomes are easier to assess in post-award evaluation but compared to other outcomes, they are often difficult to compare with quantitative outputs and results.

Additionally, the impact (CO₂e, jobs and tonnes) of Zero Waste Scotland's circular economy work will only be fully realised in the long term. However, the current reporting framework requires these to be reported during the Programme life time. Therefore, it would be helpful if the monitoring and evaluation requirements of any future structural fund took account of this time lag and sought to capture data following the completion of the Programme.

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

Improvements are required to the current EUMIS system to ensure it is more efficient and adaptable and clearer guidance as to the evidential requirements from Lead Partners would be welcomed. The time taken for verification and payment from the submission of a completed claim should be reduced and more face to face time between the Managing Authority and Lead Partners during this process would be beneficial.

Zero Waste Scotland consider that having an agreed timetable for submitting claims would be beneficial. For example, if this was quarterly with agreed claim processing times it would make financial planning more straight forward and enable the Lead Partners to effectively plan their work efficiently.