

## FINANCE AND CONSTITUTION COMMITTEE

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

#### SUBMISSION FROM SLAED

#### INTRODUCTION

SLAED welcomes the opportunity to contribute to the Committee's inquiry into the European Structural and Investment Fund Priorities in Scotland post Brexit. Over the past few years SLAED has established itself as a key interlocutor between the Scottish Government and local government, especially on the detailed operational issues relating to the implementation of the current Scottish EU Structural Funds programmes. It also helps inform the Convention of Scottish Local Authorities (COSLA) as it develops the strategic position of Scottish Local Authorities on EU funding matters.

This response focusses solely on the SLAED's experience of European Regional Development Fund (ERDF) and European Social Fund (ESF) issues.

#### *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 - 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?

A key point to make in this connection is not just the share of the overall UK Shared Prosperity Fund (UKSPF) allocated to Scotland but the quantum of resources.

The need for the UKSPF to be adequately resourced is shown by the very significant regional economic disparities in the UK, in particular the dominance of London. In 2012 London accounted for 22.8% of output generated in the UK, by 2017 this had increased to 23.9%.

So the scale of the problem has not diminished nor is there any convincing evidence from recent economic trends to justify a substantial change in the share of resources allocated to Scotland. There is also a related point to make here regarding the need for a genuinely multi annual approach in the design of the UKSPF – this is not a topic that can effectively be addressed by a “quick fix” approach.

SLAED would have serious concerns if the Fund was designed on a UK wide challenge fund basis as this could distort the intention of the UKSPF – promoting inclusive growth – by allocating on the basis of the availability of match funding rather than on need.

While there is nothing intrinsically wrong with the priorities for the 2014-20 European Structural Funds, SLAED believes these are not as aligned as they should be with the Scottish Government and regional/local economic strategies in Scotland. Over a number of EU funding cycles, EU funds in Scotland have become progressively more difficult to access for the physical regeneration agenda – for example there is no longer a specific priority for urban development in the programmes. The UKSPF should be closely aligned with the Scottish Government Economic Strategy – including its commitment to the place based dimension of inclusive growth - as well as the strategies developed by stakeholders at local and regional level. One of the points made by a number of contributors to the Economy Committee Inquiry in 2018 was the lack of “granularity” in the Scottish structural fund programmes – in other words the capacity to develop bespoke approaches to the differing needs of regional economies within Scotland was missing.

SLAED considers that the UKSPF should fully respect the devolution settlement in the UK and that accordingly the Scottish Government should have the responsibility for setting the strategic framework for the deployment of funds and monitoring the delivery of UKSPF in Scotland. Within this framework there should be substantial delegation of decision making and implementation within Scotland; either at a regional or a local authority level. Scrutiny by the Scottish Government should primarily focus on holding regional and local stakeholders to account on delivering outcomes rather than the current microscopic audit of inputs that characterise EU Structural Fund Programmes.

In relation to the “Strategic Intervention” (SI) system of managing funds, SLAED is unconvinced about the value added of this approach. There is a great deal of overlap in the information being sought at the SI stage and the “operation stage”. The extensive paperwork associated with the submission and appraisal of SIs slowed down significantly the process of approving operations which actually commit monies from the programme. This in turn has contributed in part to the difficulties the Scottish ERDF and ESF programmes have had in meeting their expenditure targets

If a 2 stage process is deemed appropriate for UKSPF then the SI stage should be streamlined with detailed consideration of issues such as procurement, state aids etc. being left to the operations phase.

#### *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?

One of the issues that have prevented the full uptake of the available funds has been a lack of match funding. Over successive EU funding periods intervention rates have tended to reduce and the typical rate outwith the Highlands and Islands now stands at 40%. Although the Scottish Government has started to look at higher intervention rates it is constrained by past commitments and the fact that the intervention rate cannot, by EU regulation, exceed 50% in most of Scotland. In the UKSPF 50% support should be seen as a minimum rather than a maximum.

Lack of match funding has meant that many lead partners have required, in the context of both procurement and challenge fund exercises, potential delivery agents to “bring their own match”. Given that in many cases the potential delivery agents are third sector organisations with very limited resources this has led to a number of abortive procurement/challenge fund exercises.

In addition to the match funding issue the complexity and responsibility of acting as a lead partner has deterred a number of local authorities from taking up their notional allocations – either in full or in part – for a number of the structural fund programme priorities. The EU compliance burden has also made a number of potential delivery agents declining to submit bids to either procurement or challenge fund exercises.

It is also worth highlighting that, in many cases, there is a very long delivery chain with the current approach to managing structural funds in Scotland. An approved “operation” may only be a challenge fund which the lead partner will be reluctant to launch in advance of formal approval. Time then has to be allocated for organisations to prepare bids which in turn have to be appraised. Successful bidders then have to be notified and the process of issuing and accepting a formal grant offer put in motion. Only after that point is activity “on the ground” likely to start. Again this impacts on the ability of the programmes to meet expenditure targets

Looking ahead towards the UKSPF in Scotland the following would improve the experience and results of structural interventions:

- Regional/local design and management within a national framework to ensure relevance to socio-economic circumstances and broader strategic fit;
- Flexible and realistic timeframes for implementation - underscoring the need for a multi annual approach;
- An emphasis on outcomes and results linked to the Scottish Government’s inclusive growth agenda; and
- An intervention rate regime that properly reflects the realities of the constraints on public sector finances.

One other factor to consider is the need for UKSPF to be additional and indeed this principle is one of the positive aspects of EU structural funds. The resources for UKSPF should not be identified by “top slicing” existing funding streams.

*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?

One of the main problems with the current Structural Fund programmes in Scotland has been the shortcomings of the MI system (EUMIS). Not only did it take 2 years longer than anticipated to achieve full functionality, it has also proven to be an extremely cumbersome system for users. To give an example if a claim is being processed by EUMIS then no changes can be made to the operation – for example notification of a change to match funding – until the claim has been processed. It is important to be aware that it is taking an average of 82 days for a claim to be processed.

Looking ahead to the UKSPF consideration needs to be given to the amount of data that needs to be supplied to back up each claim. A reduction in the amount of data to be verified would speed up the payment process. Assurance could be secured through a combination of up front systems checks and random checks during the course of implementation.

The experience of other employability/business support programmes in Scotland or other parts of the UK could also be investigated to ensure that the systems to be used for UKSPF are broadly comparable. EU structural fund programmes have historically much more onerous than those relating to “domestic” funding streams.

In addition the opportunity should be taken to reduce the very long period which EU structural fund regulations set out for document retention. Given that the majority of operations approved under the 2014-20 programmes will now continue activity to 2022/23 it is likely that all documents relating to such operations will have to be retained until at least 31<sup>st</sup> December 2025.

Consideration could also be given to setting up an advance payment model. This would particularly benefit smaller organisations.