

FINANCE AND CONSTITUTION COMMITTEE

FUNDING OF EU STRUCTURAL FUND PRIORITIES IN SCOTLAND, POST-BREXIT SUBMISSION FROM MORAG KEITH

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 based on a proportionate share of the *funds returned* to the UK from these programmes.

European Structural and Investment Funds (ESIF) comprise 5 Funding Programmes, designed to be the EU's main vehicle to support growth and jobs in a sustainable and healthy economy and environment. The total budget, at EU level, for the 2014-20 period was **€315bn**.

Consideration of a future UK replacement fund for the ESIF programmes must also recognise that there are three funds which existed under the 2014-20 Multiannual Financial Framework (MFF) which will not be continued as separate programmes in the 2021-27 Programme period. The European Commission (EC) has decided that these three existing funds will be absorbed into the ESIF programmes for 2021-27. They are the COSME Programme (EU budget of **€2.3bn**); the EU Health Programme (EU budget of **€0.45bn**) and the Employment and Social Innovation (EaSI) Programme (EU budget of **€0.92bn**). The UK has had access to the funds in their existing form and, as a consequence are a component of the EU funding from which Scotland will be precluded access as a consequence of the UK's decision to leave the European Union (EU). Therefore, assuming the UK Government will adopt a principle of consistency in handling the UK's share of the repatriated funds from these programmes' these three funds should be treated in the same way as the ESIF funds. The EU Value of these programmes for 2014-20 was **€318.67bn**.

The UK contribution to and, therefore, the amount of funding that will be repatriated to the UK in the event of Brexit, is 12% of this amount: **€38.24bn** and Scotland's proportionate share (8.4%) would amount to **€3.2bn**.

The amount of ESIF funding actually assigned to Scotland for 2014-20 was €1.0bn. Hence, it is clear that the amount of funding repatriated to the UK vastly exceeds the amount of ESIF funding actually assigned to the UK.

The 2017 Conservative Manifesto¹ stated: ***'we will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations.'***

EU Structural Funds are one of 19 EU Funding Programmes that relate to devolved areas of responsibility. In terms of consistency, control of the funding repatriated to the UK for all 19 Programmes should be fully devolved and managed in Scotland. (Annexe 1) This would amount to an additional €41.5bn of funding over 7 years. It is imperative that the committee's recommendations for the replacement programme for EU Structural Funds takes account of the wider picture and proposes a solution that will ensure synergies.

¹ <https://www.conservatives.com/manifesto>

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?

Arrangements for post-Brexit Structural Funds must respect alignment with the 2021-27 priorities for the EU Structural Fund programmes for the following reasons:

- EU investment in key areas without a matched investment in Scotland would place Scotland at a disadvantage in terms of competitiveness.
- Until such a time as the post-Brexit relationship between the UK and the EU has been fully clarified, the working assumption should be that Scotland will continue to align with the proposed EU priorities.
- EU funding for 2021-27 assumes a strategic approach across all funding programmes, including those that the UK hopes to participate in, as a 3rd Country. The replacement for EU Structural Funds in the UK must maintain that strategic alignment. This will require a Scotland level plan for investments that will set out the ambitions to be achieved under each funding source – Horizon Europe, Digital Europe, Erasmus Europe, etc. and to ensure that the replacement for EU Structural Funds also provides investment to support those strategic ambitions. Any disconnection would (further) disadvantage applications submitted to EU funding programmes as a 3rd country.

Arrangements for EU Structural Funds 2021-27 have been further simplified.² There are now 5 broad policy objectives rather than 11 thematic objectives.

- Smarter Europe – through innovation, digitisation, economic transformation and support for SMEs.
- Greener, carbon-free Europe – implementing the Paris agreement and investing in energy transition, renewables and the fight against climate change.
- Connected Europe – investing in strategic transport and digital networks
- Social Europe – delivering on social rights, supporting quality employment, education, skills, social inclusion and equal access to healthcare.
- Closer to citizens – locally-led development strategies and sustainable urban development.

Structural Funds are aligned to devolved areas of responsibility and the five policy objectives align well with Scottish Government priority areas. It should be noted that the current EU Structural Funds in Scotland (2014-20) are much narrower in focus than could have been the case.

Of particular note: a replacement funding programme would need to include Health as a priority (since it has become a key sector for future EU funding investment and is a key theme in the proposed Horizon Europe and Digital Europe programmes). This would include digital health infrastructure; digital health innovations; health and social care integration and support for public health interventions (all of which is currently eligible, but not included in the Scottish ESIF Programmes for 2014-20)²

² http://www.esifundsforhealth.eu/sites/default/files/2019-03/Final%20Report%20ESI%20Funds%20for%20Health_2.pdf

A replacement programme for ESF would need to focus more on the up-skilling of those who are **already in employment** than is presently the case. Unemployment is low in Scotland. Priority should be placed on addressing underemployment; improving productivity and addressing key skills gaps as well as on addressing social inequality.

The replacement fund for ESIF must embrace the opportunity to support the findings of the Scottish Government's Independent Care Review and should include actions to support the Scottish Government's policy for reducing re-offending.

It must also be recognised that the Brexit process has severely damaged aspects of Scottish society, in particular, in relation to the value placed on migrants who have chosen to make Scotland their home. The replacement programme should invest in actions to mitigate the damage and to promote citizenship, to strengthen communities.

It should also be noted that the EU's plans for 2021-27 Programmes absorb Capacity Building into the eligible activities. This would allow for the capacity building of Government Agencies to respond to the additional devolved responsibilities that will follow Brexit. Making full use of this would allow better and more integrated management of the repatriated funds.

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 UK Government's White Paper: "The United Kingdom's exit from and new partnership with the European Union", specifically states:

"3.5 ...We have already committed that no decisions currently taken by the devolved administrations will be removed from them and we will use the opportunity of bringing decision making back to the UK to ensure that more decisions are devolved."³

Under EU Regulations, the EU Structural Fund programmes respect the principle of **subsidiarity**; This means that Scotland has full control over the design, content, priorities, management and operation of the programmes.

The UK Government's commitment can only be met if the full allocation of funding (€3.2bn) is devolved to Scotland and continues to be managed and controlled at Scotland level.

A UK level programme would require a single approach across the UK, which would remove existing devolved authority over areas such as procurement and would threaten the protected public status of some Scottish organisations; where England has elected to open those markets to the private sector. Further, Scottish public bodies cannot use their core funding to support targets and outputs set by another body/country, therefore could not provide match funding to a UK level programme.

³ <https://www.gov.uk/government/publications/the-united-kingdoms-exit-from-and-new-partnership-with-the-european-unionwhite-paper>

Equally, the requirement to ensure a National Strategic approach to funding investments across all EU Funding programmes would deem it inappropriate to devolve responsibility for the programme to local government or local stakeholders.

Of course, all stakeholders should have a role in determining the priorities for funding. Such consultation now also needs to include those organisations who intend to submit applications to EU Funding Programmes where the UK will be entitled to apply as a 3rd Country. The determination of priorities and allocation of funding need to be set as part of an overall strategy covering all EU funding programmes.

This would be best achieved through the creation of a single Scottish Funding Agency, which would take responsibility for the development of a Scotland-wide funding strategy, to optimise synergies between those EU programmes that Scotland would continue to participate in, as a 3rd country, as well as managing responsibility for Scotland's share of the repatriated funds from the remaining EU Funding Programmes detailed in Annex 1.

A single body, with responsibility for €41.5bn (over 7 years) which would be structured to engage with all stakeholders across all of these funding areas; would need to be open and transparent, with a board appointed by Government Ministers and which would report to a Government Minister.

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?

It is time to recognise that the process of designing, developing and delivering the current Scottish ESIF Programmes has been an unmitigated disaster.

In the past the Scottish approach to managing EU funding was respected and admired. That system operated through Programme Management Executive which were discrete, independent bodies that were open and transparent and were dynamic enough to adapt and change the Programmes to optimise the associated spend.

The decision to absorb this function into Scottish Government was misguided. Not a single issue identified to justify this decision has been mitigated by this action: it has not improved audit difficulties; it has not improved the availability of match funding; it has not reduced risk; it has not reduced the administrative burden. In fact, it has made the management of ESIF funding less transparent; has increased the administrative burden and has proved to make the programmes less dynamic to economic and policy priority changes.

To date, more than €70m has been lost to Scotland as a result of failure to meet N+3 targets. The current portfolio of projects is not sufficient to achieve full spend and there have been no significant changes to the Programmes to expand eligibility to address this. There is a real risk that the current programmes will not meet the level of performance required to release the performance reserve, which will mean further loss of about €50m of funds to Scottish agencies.

A replacement programme should seek to return to an independent model that is fully open, transparent and flexible; which involves all stakeholders and which can ensure strategic alignment across all EU funding programmes. It must be accountable to the Scottish Government and align with Scottish policies.

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 current ESF Programme was written around 11 strategic interventions – this was too narrow to provide the flexibility to add new initiatives or to change priorities to respond to changing economic and policy priority developments. For example, the Social Inclusion element of the ESF programme is so focused on very narrow eligibility criteria that it is unable to address, adequately, the change from high unemployment to low unemployment with high levels of underemployment, where many citizens are in low-paid work or have zero-hour contracts.

The failure to protect the legacy of knowledge in the transfer from the Programme Management Executives to the Scottish Government meant that the lead organisations of the Strategic Initiatives were not designated with the status of Co-Finance Bodies (which would have afforded them greater protections and flexibilities) but were assigned as merely 'lead partners' which carries a greater level of risk and limits the available flexibilities for delivery.

A return to having Funding Priorities is essential. These should be sufficiently defined to ensure alignment with strategic priorities, but flexible enough to invite new, additional projects where there is underspend. A return to more competitive format, an element of the allocation of many existing EU and domestic funding programmes, is necessary to ensure that the best and most appropriate projects are funded and not simply those that fit with poorly determined eligibility criteria.

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)?

As per previous answers.

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?

This would not happen if proposals in 4 and 5 (above) are adopted.

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 things stand, it would be inappropriate to make changes to the rules relating to a replacement fund. There is insufficient information about the final position with regard to Brexit: the nature of the future relationship between the UK and the EU is unknown; the programmes in which the UK will choose to participate or choose not to participate is unknown; the programmes in which the UK may elect to participate as a 3rd country is unknown. In addition the political ambition of Scotland's elected Government is for the country to become an independent Member of the European Union. Consequently, The prudent position would be to continue to mirror EU procedures until all of the aforementioned "unknowns" have been, definitively, clarified.

For the moment, a more feasible approach in Scotland would be optimising the use of the range of simplifications in Current Programmes which the EU has created but have not been applied in

Scotland. Focusing on the further simplifications proposed for the 2021-27 Programme period would be a practical and effective way forward.

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

As above.

Annexe 1

EU Funding Programme	Scotland Arrangements 2021-27
<p>European Structural & Investment Funds (ESIF)</p> <p>The purpose of these funds is to invest in job creation and a sustainable and healthy economy and environment.</p> <p>UK contribution: €37.8bn.</p>	<p>Replacement Programme – value €3.2bn</p> <p>Should include proportionate share of these 4 Programmes as the new EU Programmes 2021-27 merge these programmes into EU Structural Funds.</p>
<p>COSME Programme</p> <p>This programme supports the competitiveness of small and medium-sized enterprises. For the 2021-27 programme period, this activity will be absorbed into the new ESIF programmes at EU level.</p> <p>UK contribution: €0.275bn.</p>	
<p>EU Health Programme</p> <p>This programme supports co-operation among EU countries in the field of health. For the 2021-27 programme period, this activity will be absorbed into the new ESIF programmes at EU level.</p> <p>UK contribution: €0.053bn.</p>	
<p>EaSI Programme</p> <p>The employment and social innovation programme promotes high level quality and sustainable employment, adequate social protections, combats social exclusion and poverty and improved working conditions. For the 2021-27 programme period, this activity will be absorbed into the new ESIF programmes at EU level.</p> <p>UK contribution: €0.919bn.</p>	
<p>Connecting Europe Facility</p> <p>This programme supports targeted infrastructure investment in the fields of transport, energy and digital services.</p> <p>UK contribution: €2.6bn.</p>	<p>value €221m</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p>

<p>Common Agricultural Policy</p> <p>Pillar 1 ensures standard of living for farmers & provides consumers with a stable, affordable food supply.</p> <p>Pillar 2 improves competitiveness for farming and forestry, protects environment & countryside, improves quality of life and diversification of rural economy.</p> <p>UK contribution: €48.9bn.</p>	<p>Value to Scotland €36.5bn.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p>
<p>Horizon 2020 Programme</p> <p>EU's flagship programme for Excellence in Research and Innovation.</p> <p>UK contribution: €9.4bn</p>	<p>Scotland's position is to participate in the replacement Horizon Europe programme as a 3rd Country.</p> <p>Scotland's share of the UK contribution is €796.2m.</p> <p>Funds should be fully devolved to Scotland, allowing continued international engagement for Research and Innovation via 3rd Country arrangement with EU or through bilateral agreements.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>
<p>Erasmus + Programme</p> <p>EU programme for education, training, youth and sport.</p> <p>UK contribution: €1.7bn.</p>	<p>Scotland's position is to participate in the replacement Erasmus Europe programme as a 3rd Country.</p> <p>Scotland's share of the UK contribution is €148.9m.</p> <p>Funds should be fully devolved to Scotland, allowing continued international engagement for Education, Training, Youth and Sport via 3rd Country arrangement with EU or through bilateral agreements.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>

<p>Interreg Programmes</p> <p>EU programmes supporting cooperation across borders. It aims to tackle common challenges and find shared solutions in fields such as health, environment, research, education, transport and sustainable energy.</p> <p>UK contribution: €1.2bn.</p>	<p>Scotland's share of the UK contribution is €103.1m.</p> <p>Funds should be fully devolved to Scotland, allowing transnational co-operation by means of 3rd Country participation in the new Digital Europe Programme; 3rd Country participation in the 2021-27 Interreg Programmes or through bilateral agreements.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>
<p>Creative Europe Programme</p> <p>EU programme supporting European cinema and cultural and creative sector. UK contribution: €175.53m</p>	<p>value €14.74m</p> <p>Funding directed to support cultural and creative sector in Scotland and also to align with creation of new Scottish Film studio.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>
<p>Life Programme</p> <p>EU programme to improve the implementation of EU environment and climate policy and legislation.</p> <p>UK contribution: €414.8m</p>	<p>Scotland's share of the UK contribution is €34.84m.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>

<p>Europe for Citizens Programme</p> <p>EU programme to support activities to increase awareness and citizens' understanding of the EU and of its values and history. The programme also helps people become more engaged in civic and democratic activities.</p> <p>UK contribution: €22.3m</p>	<p>Scotland's share of the UK contribution is €1.87m</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>
<p>EU Rights, Equality and Citizenship programme</p> <p>EU programme to help make people's rights and freedoms effective in practice by making them better known and more consistently applied across the EU</p> <p>UK contribution: €52.74m</p>	<p>Scotland's share of the UK contribution is €4.43m.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>
<p>EU Asylum and Migration Fund</p> <p>EU programme focused on people flows and the integrated management of migration.</p> <p>UK contribution: €3.17bn</p>	<p>Scotland's share of the UK contribution is €31.63m.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p> <p>Requirement to ensure that priority ambitions for this programme must be considered as part of an overall strategy – therefore there is a need for devolved oversight.</p>
<p>Food and Feed programme</p> <p>EU programme aimed to strengthen enforcement of health and safety standards for the whole agri-food chain.</p> <p>UK contribution: €227.3m</p>	<p>Scotland's share of the UK contribution is €19.07m</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p>

<p>EU Justice Programme</p> <p>EU programme to ensure effective application of EU legislation in civil and criminal justice.</p> <p>UK contribution: €45.31m</p>	<p>Scotland's share of the UK contribution is €3.81m.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p>
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<p>EU Internal Security Programme</p> <p>EU programme to support the implementation of the Internal Security Strategy and the EU approach to law enforcement cooperation, including the management of the union's external borders.</p> <p>UK contribution: €451.71m</p>	<p>Scotland's share of the UK contribution is €37.94m.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p>
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<p>EU Customs and Taxation Programme</p> <p>EU programme to support functioning and modernisation of the Customs Union.</p> <p>UK contribution: €108.9m</p>	<p>Scotland's share of the UK contribution is €9.15m.</p> <p>Scotland should be entitled to a proportionate share of the funding returned to the UK for this programme.</p>
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<p>Instrument for Pre-Accession</p> <p>EU programme to support countries who are preparing for EU accession</p> <p>UK contribution: €1.4bn.</p>	<p>Scotland's share of the UK contribution is €117.9m.</p> <p>Funding directed to support the transition from EU compliant systems to 3rd country compliance.</p>
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<p>Scotland Total</p>	<p>€41.5bn</p>
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