Finance and Public Administration Committee

Replacement of EU Structural Funds

Written Submission from COSLA

Purpose

1. The Convention of Scottish Local Authorities (COSLA) is the national and international voice of the 32 Scottish Local Authorities. COSLA has long been involved in the negotiations on the EU Structural Funds and is playing the same active role as the UK Shared Prosperity Fund is being developed. We welcome the opportunity of contributing to this call for evidence from the Scottish Affairs Committee.

Background

2. Both the Scottish Government and the UK Government have made new proposals last November 2020 to replace the existing EU Structural Funds with a domestic fund, known as the UK Shared Prosperity Fund (UKSPF), with levels that are commensurate with the current EU funding levels 2014-2020.

3. COSLA helped organise the initial consultation exercise by the UK Government in Scotland and has had regular discussions with UK civil servants. Our Presidential team has regularly met with UK ministers both bilaterally with the Scotland Office and, together with our sister organisations from the rest of the UK, as part of the Brexit Ministerial Local Government Delivery Board.

4. Our Environment and Economy Spokesperson Cllr Steven Heddle was part of the European Structural and Investment Funds Replacement Consultation Steering Group which, following a dedicated consultation and two inquiries from the Scottish Parliament, put together a Scottish proposal, a version of which was subsequently formally endorsed by Scottish Ministers.

5. Prior to these UK and Scottish announcements, what is now the UK Internal Market Act 2020 laid the legal basis for this new Fund as a reserved power. This is a new development, as currently EU Structural Funds' management across the UK nations is the most devolved in Europe.

6. The Bill also provided the legal basis for the UK to finance international projects such as INTERREG, even if at the moment the UK has not opted into this EU programme for the 2021-2027 period. Regrettably, that language was removed in the approved version of the Internal Market Act 2020. However, the UK-EU Trade and Cooperation Agreement makes explicitly clear that it is up for the UK to decide to opt into this programme, using a provision that COSLA had actively lobbied to retain in the new EU Regulation 2021-2027. The Scottish Government in partnership and consultation with many bodies, including councils

and COSLA, has put forward a series of proposals should a Scottish opt in be authorised by the UK Government.

Detail

7. COSLA shares the view the main aim of the UKSPF in Scotland would be to address and reduce economic and social disparities within and between places and people. It would focus on promoting place-based economic development and cohesion, helping communities to improve key economic, social and well-being performance indicators. The Fund would support local responses to economic and social challenges, empowering communities across the country to respond to issues which impede their development.

8. As such the outline of the UKSPF supports, just as COSLA does, the development of resilient people, communities, and places. This is also consistent with and complements the Scottish Government's Economic Recovery Implementation Plan.

9. COSLA has consistently argued for a degree of continuity from the positive elements of the EU funding programmes on issues such as partnership working and additionality, with a focus on sustainable development and wellbeing in all places of Scotland, urban or rural.

Delivery

10. We want to be sure, however, that notwithstanding the need for embedding local activity in wider regional partnership or city deal collaboration (and we welcome the Spending Review announcements concerning four City and Growth deals in Scotland), that the UKSPF in Scotland recognises the role of Local Government in directly managing these funds, reflecting its nature as the other sphere of elected Government of the country.

11. It is worth noting that back in 2014 COSLA had secured from the Scottish Government that one third of the EU Structural Funds would be managed by Local Government with intervention being directly defined by them.

12. COSLA understand that once fully up and running the USPKF would have a place strand and a people strand. The information so far is still limited but this split would broadly appear to repeat the investment logic of the ERDF and of ESF: on place, localities would be able to apply based on UK-wide outcomes (training, community infrastructure, regeneration); and on people, it would be targeted at people most in need through local employment and skills programmes.

13. It is important to clarify the role of UKSPF is in rural areas. We understand that elsewhere in the UK, both DEFRA and Department for Levelling Up Housing and Communities (DLUHC) is hosting events with a focus on rural areas as part of the UK Government's ongoing engagement with stakeholders. For UKSPF, DLUHC have hosted a series of cross-sector multi-regional

roundtables to enable stakeholders to offer input into UKSPF policy development. The aim of these new UKSPF rural roundtables is to gather views from different sectors to feed into the policy design Framework, with a focus on the Investment Priorities and a glance to delivery principles. There will also be opportunity to reflect on lessons learned from the Levelling Up Fund and the UK Community Renewal Fund. In the case of Wales this has been done in cooperation with the Welsh Government and we expect the same to happen shortly with the Scottish Government. It is worth insisting that the £1.5bn commitment is a net loss if rural development activities previously channelled through the EAFRD funding is also to be delivered by UKSPF.

14. Therefore, it makes sense that these Investment prospectuses not only build upon the abundant evidence of Local Authorities delivering ESF and ERDF but also that they are coproduced by them. This is what in the EU Regulations is known as the partnership principle and we expect the UK Government to apply it so that Local Government or their representative bodies are involved in the design, delivery and monitoring of the UKSPF, both on a Scotland and on a UK-wide basis. We have previously called for a dedicated UKSPF Local Authority forum, as discussed below.

Local Government engagement

15. In partnership with the other home nation associations, COSLA has pressed for both a member and officer level UK Shared Prosperity Fund (UKSPF) Taskforce, to provide local government with an opportunity to influence and shape the UKSPF.

16. The UK Government has so far agreed to an officer level taskforce and the first meeting was held on 5 October. The meeting involved senior officials from the four UK associations and various other networks particularly but not exclusively from England. We collectively made a strong case for the UKSPF to be a localised, place based fund driven by councils and combined authorities. The taskforce will continue to meet in the run up to the Spending Review, at which point we expect to hear further information relating to the UKSPF and the Community Renewal Fund. We will also continue to push for an elected member led taskforce as originally proposed by UK ministers.

17. In parallel to further details on the UKSPF we expect the UK Government to table a new Levelling Up White Paper, which we now expect not just to cover activity related to the UKSPF but how different spheres of government should work together across the UK. In this regard we note, as expressed in the latest DLUHC ministerial plan, that a significant part of the activity in Scotland around the UKSPF will be done by a dedicated team at the new UK Government Queen Elizabeth House in Edinburgh. Considering the increasingly complicated delivery landscape as a result of EU returned powers including the power to provide financial assistance being declared a reserved power by the UK Internal Market Act 2020, it is essential that the content of such a White Paper as well as the work of the new DLUHC Edinburgh team works hand in hand with existing arrangements and organisations in Scotland such as COSLA and others.

Finances

18. The Chancellor indicated that the UK Shared Prosperity Fund will amount to £1.5 billion per year from 2022 onwards. That is roughly equivalent to the UK-wide annual EU receipts from the EU Structural Funds budgeted for 2014-2020 if rural development funding (European Agricultural Fund for Rural Development, EAFRD) is excluded. Five percent of EAFRD, known as LEADER, is geared to local development, and is essentially delivered by Local Authorities. As it appears that the UKSPF will also target rural communities we would be keen that existing LEADER spend is matched by UKSPF monies. In the 2014-2020 period, Scotland has been allocated and managed €1,66bn of the three above-mentioned EU funds.

19. For 2021, and to phase into the full UKSPF, the Chancellor announced the small UK pilot of £220m for communities, about £20-25m of which is expected to be invested to Scotland. We would be keen that both the pilot and the full UKSPF investment prospectus are developed with Local Government and that they are delivered by Scottish Local Authorities, building upon our extensive experience and statutory roles, as well as other functions such as Local Economic Development.

20. As part of the Spending Review, the new 'Levelling Up Fund' worth £4 billion for England allows any local area to bid directly to fund projects. Considering that due to Barnett consequential funding Scotland will receive a share of the £800m foreseen for Scotland, Wales, and Northern Ireland, it seems logical to us that the Scottish Government either passes it down to Local Authority budgets or at least makes the Scottish share of the Levelling Up available for Local Authority bids just as in England.

21. In the 2022 Autumn statement the Chancellor announced that the full extent of the UKSPF will only meet the previous ministerial Commitment of £1.5bn per annum in 2024-25, only reaching £400m in 2022-23 and £700m in 2023-24. Even considering that 31st December 2023 is the closure of the previous unspent EU Structural Funds this delay is very concerning. It is worth noting that to meet the UK Ministerial commitment of £1.5bn per year from 2022, the Autumn budget proposal amounts to a net loss of £1.9bn for 2022-2024.

22. While we can understand that this also due to delays in the implementation of the Community Renewal Fund (which is the pilot to test the eventual UKSPF) this is itself a matter of concern. As previously expressed by Leaders and in representations made by the COSLA President to UK Ministers, the significant delays in announcing the successful bids to the CRF will leave little time during this budget period to deliver the projects, thus depriving the launch of the UKPSF of a crucial evidence base about what works - and what does not work - locally.

23. Lastly, given that a new Infrastructure Bank will be launched to notionally replace the role of the European Investment Bank it is necessary to consider how it fits with the wider investment landscape. This must be

considered in terms of its complementarity with the UKSPF, other lending bodies such as the Local Authority sponsored and EU financed Business Loans Scotland fund for Scottish SMEs, the Scottish National Investment Bank, any present or future UK-wide state sponsored strategic and green investment vehicles, as well as private sector lending. Lessons from the EU Structural Fund financial engineering vehicles (e.g., JESSICA fund) show that it is necessary that grant, and loan financing are properly designed to complement each other so as to maximise investment and public value.

Conclusion

24. The UKSPF is at the centre of a debate around a potentially historical refashioning of how sustainable economic development policies work across Scotland and the rest of the UK. There will be difficult decisions to be made by both Governments, and COSLA will seek to work in partnership with both to ensure the best outcomes for our communities.

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