Dear Keith

Structural Funds inquiry

You will be aware the EJFW Committee is in the midst of an inquiry into European Investment and Structural Funds, covering both the current ESIF funding period (2014-2020) and what comes next (the proposed UK Shared Prosperity Fund). Indeed, we shall be hearing from you and your officials on 11 September, and plan to publish our final report and recommendations in October.

However, the Committee is keen, as are many of those who have already taken part in the inquiry, to contribute to the discussion at both Scottish and UK government levels; and – given the UK Government intends to consult on the design of the new fund later in the year – we are writing to yourself and Lord Henley (at the Department for Business, Energy and Industrial Strategy) to outline our provisional findings (see Annexe A). These address guiding principles, funding, timing and transition, and institutional arrangements, and I hope will be helpful to you and to your UK counterpart.

Kind regards

Gordon Lindhurst MSP
Convener
Annexe A

Background

1. The Economy, Jobs and Fair Work Committee issued a call for views on 15 February, setting out the remit for the inquiry as—

“To understand how European Structural and Investment Funds (ESIF) are currently used to support economic development in Scotland, at both a regional and local level. This will help inform the Committee’s views on, and develop ideas for, what should replace ESIFs once the UK exits the European Union.”

2. Views were sought on spending priorities and approval processes, current spending, and future programmes. We received 36 written submissions, a summary of which can be found in Annexe B. The Committee also heard in person from three panels of witnesses over two meetings, on 8 May and 15 May.

3. Drawing on this evidence, there are four key areas the Committee wishes to address for now, with more detail to come – in terms of critique, lessons learnt, case studies and further recommendations – when we publish our final report in October.

Guiding principles

4. Highlighting the thinking underpinning ESIFs and making the case for whatever replaces them to exist beyond electoral spending cycles, COSLA told us—

“It is about long-term, big societal ambitions for Europe, the UK and Scotland. Anything replacing them should focus on big societal ambitions or challenges...The challenge will be to ensure that we agree on a framework such that, no matter who is in power in London or in Scotland, people can sign up to the objectives over the course of several parliamentary terms and spending reviews...”

5. It was a view widely shared, including by SCVO, who contended the focus should remain on promoting social inclusion, combatting poverty and addressing inequality. Scottish Cities suggested the need to find “the balance between place-based activities, people-based activities and business-facing activities”. Professor Bachtler said that in the 1990s and early noughties Scotland had been seen as a pioneer in the use of structural funds, most notably in the areas of community development, evaluation and equal opportunities—

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1 Economy, Jobs and Fair Work Committee, Official Report, 8 May 2018, Col 40.
2 EJFW Committee, OR, 8 May 2018, Col 49.
3 EJFW Committee, OR, 8 May 2018, Col 52.
“The question is, where are the innovation projects…?”

6. He was more positive about the opportunity now to reconsider how we might deal with the impacts of globalisation, technological change and Brexit at the national, regional and local levels. His concern was whether the UK Government’s consultation would be “sufficiently policy-led” to take us “somewhere that involves fundamental reform”. The principles around which the Prosperity Fund could be developed were, in his view: devolution/decentralisation; multi-annuality (as opposed to annual budgeting); partnership at the national, subnational and horizontal levels; integration of funding streams; and accountability (based on transparency and openness). Regional policy ought to encourage consideration of “territorial equity…the relationship between the economic and the social and how we want to translate that into practice”. But—

“There is a danger of thinking about funds and schemes – this is the classic UK Government approach…rather than thinking more broadly about what it is that we want to achieve.”

7. Picking up on the question of the timeframe, Robin Smail encouraged “multiannual finance for multiannual problems” but also urged the need for greater flexibility and “even a sub-fund that was dedicated to crisis situations”. The University of Highlands and Islands (UHI) also saw a more responsive approach as “one of the opportunities” and described how we measured success as “a fundamental question” from which we could then move onto the matter of funding. Professor Bachtler recommended a “less top down, less prescriptive, and more flexible” approach, citing Switzerland as a good example of such a model of regional policy. UHI said the approach should be ambitious as well as accountable—

“…we must look at it in the context of what we want to do with the funds, because that is what really matters. Only then must we find an acceptable and accountable method of delivering and spending the funds.”

8. It is probably more straightforward to say what is not wanted from the UK Shared Prosperity Fund: not top-down, not centrally-driven, not short-term, not rigidly bureaucratic. The “what is” is trickier. We have heard calls for strategic alignment and local impact, for stability beyond electoral cycles and flexibility to respond to events, for fundamental reform and policy continuity, for ambition and accountability.

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4 EJFW Committee, OR, 15 May 2018, Col 7.
5 EJFW Committee, OR, 15 May 2018, Col 18.
6 EJFW Committee, OR, 15 May 2018, Col 19.
7 EJFW Committee, OR, 15 May 2018, Cols 24-25.
8 EJFW Committee, OR, 15 May 2018, Col 15.
9 EJFW Committee, OR, 15 May 2018, Col 25.
11 EJFW Committee, OR, 15 May 2018, Col 27.
12 EJFW Committee, OR, 15 May 2018, Col 31.
9. **ESIFs** – the financial instruments of the EU’s “cohesion policy” – were designed with the aim to reduce economic and social disparities by supporting projects directed at job creation, improved quality of life, and sustainable development.

10. The Committee believes what comes next, if it is to live up to its proposed title of shared prosperity, must be shaped around that core structural approach. It should therefore be directed at people and places, informed by the experience of practitioners, based on good practice and local knowledge, and, above all, needs-driven.

### Funding

11. Despite concerns expressed about delays, IT systems and inadequate consultations, most local authorities recognised the various benefits ESIFs had brought to their area. Aberdeenshire Council, for example, stated that around £17m of grant had contributed towards £40m of investment from 2017-2020, with a positive impact on nearly 13,687 individuals, 654 businesses and 209 projects, and “creating some 90 jobs”.\(^{13}\)

12. ESIFs add up to something between 10 and 25% of local authority spending on economic development and employability in Scotland, and Scottish Cities told us—

> “…regional economic disparities in the UK have not narrowed in recent years, so it would seem somewhat counterintuitive if the money that is available for regional development was cut…”\(^{14}\)

13. COSLA observed a consensus among the witnesses that “the current allocation should be the baseline”. They suggested funding should not impact on the fiscal framework but could be, as with structural funds, “added on top of it”.\(^{15}\) SCVO concurred, seeking “absolutely no regression”.\(^{16}\) Professor Fothergill wanted to see the new fund “worth at least as much” as we currently received via Europe, in the region of £1.5bn a year at the UK level. He pointed out there was already provision made in the OBR’s financial estimate into the 2020s “for UK domestic spending in lieu of EU transfers. The money is there”.\(^{17}\)

14. Pointing to work undertaken with Malcolm Leitch, Professor Fothergill said the way of working out the allocation of funds between the nations of the UK could not be replicated “unless you undertake some extremely convoluted statistical manipulation”. He observed “a great sensitivity” at both official and ministerial level in the UK Government on the matter and

\(^{13}\) Written submission, Aberdeenshire Council.
\(^{14}\) EJFW Committee, OR, 8 May 2018, Col 48.
\(^{15}\) EJFW Committee, OR, 8 May 2018, Col 49.
\(^{16}\) EJFW Committee, OR, 8 May 2018, Col 49.
\(^{17}\) EJFW Committee, OR, 15 May 2018, Col 22.
awareness that any reallocation between the four countries “would potentially invite a political backlash”. He said—

“The primary issue in Scotland is to lay down a marker that the share should not be reduced, because the economic fundamentals of Scotland compared to those of England, Wales or Northern Ireland have not changed much over recent years.”18

15. Professor Bachtler stated that—

“Within each nation, there would be principles for how funding should be allocated, but the funding allocation in Scotland would be determined by the Scottish Government and Scottish Parliament.”19

16. The Committee endorses the call for the current allocation to Scotland under ESIFs to be considered the baseline for future funding levels under the UK Shared Prosperity Fund. To echo SCVO, we would expect absolutely no regression. The money is there, as shown in OBR’s financial estimates for UK domestic spending in lieu of EU transfers, and Scotland’s economic circumstances have not significantly altered. There is a strong case, therefore, for funding to be allocated along the lines of the current methodology.

Timing and transition

17. As Highlands and Islands Enterprise (HIE) told the Committee—

“The ability to develop programmes and interventions that move seamlessly from the current period, with Government guarantees, into the next phase of funding will be critical.”20

18. The 1st of January 2021 was the date identified by Malcolm Leitch and various others for when the new fund should “be open for business”.21

19. COSLA said we were “already getting close to the wire” to ensure a smooth transition—

“Regardless of the UK timescales, in Scotland we should start as soon as possible.”22

20. While SCVO also counselled against any complacency—

“There needs to be some mitigation and some urgency in dealing with the issue.”23

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18 EJFW Committee, OR, 15 May 2018, Col 23.
19 EJFW Committee, OR, 15 May 2018, Col 24.
20 EJFW Committee, OR, 8 May 2018, Col 15.
21 EJFW Committee, OR, 8 May 2018, Col 45.
22 EJFW Committee, OR, 8 May 2018, Col 45.
23 EJFW Committee, OR, 8 May 2018, Col 45.
21. Although it is intended we leave the EU in March 2019, with access to ESIFs to “trundle on” up until the end of December 2020, the necessity for “a seamless transition” was underlined by Professor Fothergill.24

22. The Committee encourages both the Scottish and UK Governments to ensure there is no gap from the end of ESIF funding to the commencement of the UK Shared Prosperity Fund; and to make that transition as seamless as possible.

Institutional arrangements

23. The importance of recognising different structures and systems was underscored by SDS (with a reference to welfare)—

“The Anglocentric programmes that came through the Department for Work and Pensions were designed without much reference to things such as the Scottish index of multiple deprivation or how some of the Scottish Government funds were released. There needs to be an ability to match with the Scottish Government’s strategic intent.”25

24. Robin Smail described “a very different model to the English set-up” while COSLA talked of “dividing responsibility between the UK and the Scottish Government”.26

25. HIE valued “place-based decision making”27 while Scottish Cities described the current set-up as “the least spatially differentiate European structural fund programme that I can recall” and hoped for a move from centralisation to “a more regionally sensitive series of interventions”28 that could “bring need and opportunity together at regional level”. Regarding the UK Shared Prosperity Fund—

“…there may be some hard choices to be made on the balance between place-based activities, people-based activities and business-facing activities but, given what will hopefully be a considerable amount of devolution to Scotland, at least those issues will be discussed and concluded within the Scottish family. That will certainly be an advance on having to follow the EU rule book.”29

26. Professor Fothergill was optimistic that the Scottish Government would “have quite a lot of leeway, within broad UK guidelines, to design its own internal allocation formula”.30

27. Recognising both opportunity and threat, COSLA said—

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25 EJFW Committee, OR, 8 May 2018, Col 17.
26 EJFW Committee, OR, 15 May 2018, Col 21.
27 EJFW Committee, OR, 8 May 2018, Col 17.
28 EJFW Committee, OR, 8 May 2018, Col 39.
29 EJFW Committee, OR, 8 May 2018, Cols 52-53.
30 EJFW Committee, OR, 15 May 2018, Col 30.
"The question is whether we will have fresh thinking...Administrations and bureaucracies like certainty rather than innovation. However, this moment is perhaps the first time in 40 years that we can rethink some of these frameworks."³¹

28. Furthermore—

"How can we legally bind future Parliaments and Governments in a way that is constitutionally appropriate and effectively give that security [of planning and spend beyond electoral cycles]...We have to ensure that the shared prosperity fund...will work in a way that is structural."³²

29. Professor Fothergill emphasised the importance of "geographical targeting" and suggested there had been "greater targeting of funds at less prosperous part of the country" in England than had been the case in Scotland.³³ Robin Smail said that centralisation had taken place in "some of the smaller and better-off EU states" as funding declined while larger nations – including Germany, France and Spain – retained regional programmes.³⁴ Within a strategic approach, it was important, he said, "to identify subregions and subregional problems, as well as local and community problems".³⁵

30. Citing research carried out by OECD, Professor Bachtler referred to Europe-wide "regional challenges"³⁶ and "spatial consequences"³⁷ as "a rationale for having a strong strategic approach at Scotland level".³⁸ He also saw a need to revisit our "subnational approach" given social inclusion problems in urban areas as well as rural challenges, with problems like retail, bank and post office closures calling for "multilevel approaches"³⁹. We had become "too centralised in our domestic policies" he said, and "what is missing is a local or community dimension to economic development".⁴⁰

31. UHI identified an issue with connecting the national to the local—

"A major drawback of the governance in our programme is that there is very little in between the joint programme monitoring committee, which is the very high-level Scotland-wide strategy discussion, and what happens on the ground with individual organisations."⁴¹
32. They encouraged “greater granularity” in the lowlands and uplands, where diversity was as much a feature as the highlands, and said it was “difficult to look at how you deliver with an approach that is just pan-Scotland.”

33. Aberdeenshire Council also sought a flexible approach within a national framework, “with local areas setting priorities based on analysis of local needs”. Angus Council and Argyll and Bute Council argued that local decision making would be crucial to the understanding of varied business and employability needs. A return to the partnership model that had “worked well in the past” was advocated by Shetlands Council; all local authorities making the case for local and regional stakeholders to be involved from the outset in the setting of programme priorities and managing the delivery of the funds.

34. That the Scottish polity has distinct characteristics would seem obvious to most observers. However, for clarity’s sake, the Committee counsels against any approach seeking a rigidly HM Treasury-driven or otherwise prescriptive approach to the UK Shared Prosperity Fund.

35. Practitioners expect responsibility to be shared between the UK Government and the devolved administrations when it comes to devising a framework for the fund. They make the case for Scotland deciding its own internal allocation formula. We concur. Such issues could be discussed and concluded “within the Scottish family”, as Scottish Cities put it.

36. Not that a purely pan-Scotland model is the answer either. The Committee calls for a more regionally sensitive and less centralised approach that embraces partnership with local authorities and the third sector, among others, from the very outset; one in which spending on potentially impactful local projects is not blocked by additional, unnecessary and narrowly applied rules, the community dimension is not lost, and where flexibility is possible, encouraged even, within a national strategic framework.

42 EJFW Committee, OR, 15 May 2018, Col 15.
43 Written submission, Aberdeenshire Council.
44 Written submissions, Angus and Argyll & Bute Councils.
45 Written submission, Shetland Council.
Annexe B

Economy, Jobs and Fair Work Committee

European Structural and Investment Funds

1. European Structural and Investment Funds (ESIFs) support economic development across all EU countries and are intended to promote smart, sustainable and inclusive growth.

2. The Structural Funds are composed of two similar sized funds: the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

3. In Scotland, funding is split between two programme areas: Highlands and Islands (accounting for around 20% of total funding), and Lowland and Uplands Scotland (essentially the rest of Scotland). For the period 2014 to 2020 Scotland will receive around €476 million from the ERDF and €465 million from the ESF.

4. The Scottish Government is the Managing Authority for the two ESIFs. It distributes funds to lead partners through Strategic Interventions (SIs): large-scale allocations of more than €15 million, structured around specific themes and with specific aims. As shown below, lead partners can be Government policy directorates, agencies and local authorities with the capacity and capability to manage the funds and provide match funding of their own. They usually have significant and existing policy and funding presence in the area.

5. The SG identified 13 Strategic Interventions which aligned with European Union and Scottish Government strategic priorities:

<table>
<thead>
<tr>
<th>Strategic intervention (2014-2020)</th>
<th>Lead partner(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital infrastructure</td>
<td>Scottish Government Digital directorate</td>
</tr>
<tr>
<td>Employability</td>
<td>Skills Development Scotland (SDS) and 27 local authorities</td>
</tr>
<tr>
<td>Youth Employment Initiative</td>
<td>Scottish Funding Council (SFC) and 11 south west local authorities</td>
</tr>
<tr>
<td>Developing Scotland’s Workforce</td>
<td>SFC and SDS</td>
</tr>
<tr>
<td>Business competitiveness</td>
<td>Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE) and 16 local authorities</td>
</tr>
<tr>
<td>Business innovation</td>
<td>SE, HIE and SFC</td>
</tr>
<tr>
<td>SME holding fund</td>
<td>Scottish Government SME Holding Fund Unit</td>
</tr>
<tr>
<td>Green infrastructure</td>
<td>Scottish Natural Heritage (SNH)</td>
</tr>
<tr>
<td>Scotland’s 8th city – the smart city</td>
<td>The Scottish Cities Alliance</td>
</tr>
<tr>
<td>Low Carbon Infrastructure Transition Programme</td>
<td>SE, HIE and the Scottish Futures Trust (SFT)</td>
</tr>
<tr>
<td>Low Carbon Travel and Transport</td>
<td>Transport Scotland</td>
</tr>
<tr>
<td>Programme</td>
<td>Resource Efficient Circular Economy</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>------------------------------------</td>
</tr>
<tr>
<td>Social Inclusion and Poverty Reduction</td>
<td>Scottish Government’s Housing and Social Justice directorate, the Big Lottery Fund Scotland and 18 local authorities</td>
</tr>
</tbody>
</table>

6. SPICe produced a briefing on [European Funding in Scotland](#) in November 2016. This is useful in explaining the often complex processes and systems in place to allocate and manage ESIFs in Scotland. It also shows how much ESIF funding had been committed by October 2016.

7. The Scottish Government provided the Culture, Tourism, Europe and External Relations Committee with details of commitment in the current programmes (up to August 2017). Commitment means the funding has been allocated to specific projects but has yet to be spent. The commitment figures are shown in the table below:

<table>
<thead>
<tr>
<th>Programme</th>
<th>Committed (£)</th>
<th>Committed (%)</th>
<th>Programme Total (£)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>H&amp;I ERDF</td>
<td>54,031,391.24</td>
<td>51.34%</td>
<td>105,236,870.42</td>
</tr>
<tr>
<td>Rest of Scotland ERDF</td>
<td>152,420,602.50</td>
<td>45.29%</td>
<td>336,542,233.03</td>
</tr>
<tr>
<td>H&amp;I ESF</td>
<td>25,232,898.32</td>
<td>33.01%</td>
<td>76,449,735.00</td>
</tr>
<tr>
<td>Rest of Scotland ESF</td>
<td>99,753,809.25</td>
<td>37.23%</td>
<td>267,935,522.31</td>
</tr>
<tr>
<td>YEI ESF</td>
<td>59,125,634.29</td>
<td>69.20%</td>
<td>85,437,691.72</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>395,435,333.65</strong></td>
<td><strong>45.37%</strong></td>
<td><strong>871,602,052.49</strong></td>
</tr>
</tbody>
</table>

* based on August 2017 exchange rate of 1.11647

**Call for Views**

8. The Committee launched a [call for views](#) for its Structural Funds inquiry on 15<sup>th</sup> February. The inquiry remit is:

“To understand how European Structural and Investment Funds (ESIF) are currently used to support economic development in Scotland, at both a regional and local level. This will help inform the committee’s views on, and develop ideas for, what should replace ESIFs once the UK exits the European Union.”

We were particularly interested in receiving views on the following areas:

**Current spending priorities and approval processes:**
- How the Scottish Government identified and agreed spending priorities for its current ESIF allocations.
- The processes the Scottish Government went through with the European Commission to gain approval for its ESIF plans.
• The involvement of SG agencies, local authorities and the third sector at this stage of the process.

Current spending:
• How the differing needs of Scotland’s regions are accounted for in the current range of ESIF programmes.
• How the 2014-2020 programme funding is being spent, which areas have benefitted and any issues with these commitments or processes.
• Understanding current accountability and reporting issues.
• How current and previous programmes are evaluated and any suggested improvements to the evaluation process.

Future programmes:
• How any future replacement of ESIFs could be used to improve employment, infrastructure and productivity in Scotland’s regions.
• Which level of government is best placed to decide how future funding is allocated and what accountability processes should be in place?
• What are the potential opportunities and risks presented by any replacement fund or programme for ESIFs?

9. The Committee received 36 written submissions. These include 12 from individual local authorities, one each from the enterprise agencies, representations from the Scottish Funding Council and the further/higher education sector as well as from a number of other organisations. The views of local authorities are further represented by COSLA, Scottish Local Authorities Economic Development group, Scottish Cities Alliance, the West of Scotland European Forum and the East of Scotland European Forum.

10. A number of submissions highlight the importance and timeliness of our inquiry, with the Industrial Communities Alliance saying the Committee “has the potential to exert an important influence on the development and implementation of a replacement for the EU funds coming to Scotland”.

Submissions summary

How the Scottish Government identified and agreed spending priorities for its current ESIF allocations.

11. Some submissions complain about limited consultation between the Scottish Government and its partners during the early stages of programme development, with local authorities in particular saying this has had a lasting impact. For example the Highlands and Islands Partnership believe that “local authorities had a limited role in the Strategic Interventions (SI’s) which in turn limited the impact and relevance of some interventions to the Highlands and Islands”.

12. Some submissions highlight a lack of transparency and communication during the early stages of development when the SG was agreeing spending priorities. Local authorities and SCVO describe difficulties in understanding
how decisions were made by the Government when spending priorities were agreed.

13. Some local authorities, for example those represented by the West of Scotland European Forum, speak of “challenging timescales” during the consultation period: “it was especially challenging to comment comprehensively on the draft operational programmes given the lack of time given - less than 2 weeks - so to do and the length (in excess of 150 pages) of the programme documents”.

The processes the Scottish Government went through with the European Commission to gain approval for its ESIF plans.

14. According to North Ayrshire Council:

“Scottish Government and European Commission officials engaged in a number of meetings as the new ESIF programmes were being developed. These were highly technical and detailed interactions. During the development phase of some previous programmes, government invited particularly experienced stakeholders to join in direct discussions with the Commission. This approach allowed negotiators to benefit directly from the extensive experience of Scottish partners in the development and delivery of EU programmes. It is possible that closer alignment with the needs of Scottish delivery partners could have been achieved if this approach had been adopted for the 2014-20 programmes.”

The involvement of SG agencies, local authorities and the third sector at this stage of the process.

15. According to East Lothian Council, relevant services and officials were mainly kept up-to-date on (then) emerging allocations, priorities and processes via the SLAED network. There were tight timescales limiting opportunities for wider consultation and involvement, meaning that the selection of allocations and priorities was not sufficiently communicated to stakeholders.” This view was shared by a number of other local authorities who felt that challenging timescales meant it was difficult to contribute during the planning phase.

16. North Ayrshire Council felt that “earlier and more intensive involvement of local authorities and the other strategic agencies expected to deliver interventions could have helped to avoid difficulties in the delivery of quality, compliant projects throughout Scotland”. Likewise, the SCVO felt that the third sector had “very little real influence” at the priorities and approval stage of the ESIF process: “In many instances correspondence and appeals by the SCVO to be involved were ignored and not even acknowledged.”

How the differing needs of Scotland’s regions are accounted for in the current range of ESIF programmes.
17. There is a shared belief among some rural local authorities that the current ESIF programmes don’t fully take into account Scotland’s various regional needs and differences. Aberdeenshire Council explain that during the consultation process the Scottish Government engaged with local authorities collectively through COSLA rather than understanding the needs of individual councils. This meant that “local needs and priorities were not always reflected in the Strategic Interventions… (SIs) meet national priorities which may or may not coincide with local ones”.

18. SCVO are equally critical stating “in all priorities there is a failure to deliver programmes that are appropriate to Scotland’s regions.”

19. The Highlands and Islands European Partnership (HIEP) also argue that the ESIF approach in Scotland adopts a “one size fits all policy” which does not fully work for their region but is suited to more populous areas. Comhairle nan Eilean Siar has similar criticisms, believing the ESIF programmes were:

“…predicated on the principle of alignment of priorities and strategies at EU, UK and Scottish Government level as a basis for allocating EU funds to meet EU 2020 goals. Ultimately, there has been insufficient flexibility within these parameters to allow Highlands and Islands regional and sub-regional priorities and challenges to be fully addressed.”

20. Likewise, Argyll and Bute Council are of the view that current ESIF programmes are not sensitive to the complex geographies of their area.

21. The Scottish Local Authority Economic Development group (SLAED) and the Industrial Communities Alliance both welcome the committee’s recognition that there are a number of distinct regional economies and labour markets in Scotland – beyond the Highlands/Lowlands and Uplands distinction. The group conclude that the diversity of economic circumstances within Scotland was not fully reflected in the design of the 2014-20 programmes and this may have been a factor in relation to a number of delivery challenges.

How the 2014-2020 programme funding is being spent, which areas have benefitted and any issues with these commitments or processes.

22. Scottish Enterprise, Highlands and Islands Enterprise and the Industrial Communities Alliance all acknowledge the positive impacts ESIF programmes have had in Scotland over the past few decades.

23. Professor Steve Fothergill (giving evidence on 15 May) states that EU Structural Funds are currently the principal arm of regional policy in the UK, including Scotland. By “regional policy” he means “policies intended to promote growth and jobs in less prosperous local economies”. He believes that geographical targeting of ESIFs are not as sharp as in England and Wales “because all but the Highlands & Islands is covered by a single financial allocation. This is something the Committee may wish to look into. At present England is divided into 39 separate sub-regions for EU funding purposes.”
24. COSLA explains that Scottish Local Government delivers around one third of the £1.3bn EU Structural Funds 2014-20. This essentially means:

- funds for Small Medium Enterprise (SME) support delivered through Business Gateway;
- financial engineering via the new “Business Loans Scotland” (an all Scotland local authority loan partnership);
- employability via Community Planning Partnerships, and;
- special funds on Youth Employment for 12 West of Scotland councils (due to the 25% youth unemployment rate there at the time it was allocated).

25. With regards to business support, Argyll and Bute explain that their Business Gateway Team was eligible to undertake a ERDF-funded programme as the Lead Partner in the Business Gateway Local Growth Accelerator Programme (LGAP). According to the Council, “this has benefited the micro, small and SME business community throughout Argyll and Bute through levering in £272k of ERDF monies (total cost circa £544k) to support workshops, specialist advice and funding. The funding support has been in terms of business growth grants up to £5,000; employment/graduate placement grants up to £12,000; and key growth sector grants up to £1,500 to attend trade fairs, training or achieve an accreditation.”

Difficulties

26. SLAED highlights some problems translating the commitments made under the programmes into declared expenditure to the European Commission, with the result that the programmes’ target levels of expenditure by the end of 2017 were not met and around €22m was lost, or “decommitted”, to the programmes. SLAED offers some possible reasons for this:

- Delays in approval by the European Commission of the Programmes (December 2014);
- Elongated Scottish Government appraisal and assessment procedures – the first Grant Offer letters not being issued until December 2015 – most were not issued until well into 2016;
- Continuing issues with the EUMIS (the MI system used to process claims and performance reports) with full functionality not being reached until summer 2017, some two years later than planned.
- Uncertainty regarding the cost models to be used. A great deal of time was spent – ultimately abortively -by both the Scottish Government and partners (including SLAED) to develop a “unit cost approach”;
- Evidencing Participant Eligibility (especially for Youth Employment Initiative and employability activities) – following consultation with SLAED the Scottish Government issued revised guidance on this issue – but this only took place in early 2017;
- Improvements in most local labour markets (ESF activities) reducing the number of potential clients; and
Impact of Welfare Reform (Universal Credit) and of the introduction of Devolved Employability Services (Work First / Work Able / Fair Start Scotland).

27. Dumfries and Galloway Council agree with SLAED, stating that delivery of ERDF commenced in April 2016, some 12-18 months later than originally anticipated. This delay, they argue, has resulted in “lower than anticipated expenditure and this is something that we will not be able to fully compensate for in the time remaining”. Shetland Council believe that some of the lost €22m could have been avoided had “greater flexibility within the SIs been built in at the outset”.

28. Shetland Council also highlights the protracted application and claims process in place at the moment. As an example, its application for ESF funding for an employability pipeline “took over a year from initial application to receipt of an offer of grant …a lack of guidance coupled with a complex IT system meant that our first ESF project claims were submitted over 2 years after projects had started”.

The third sector

29. SCVO are clearly very unhappy with the current management and delivery of ESIFs in Scotland (for example they have some criticisms of Skills Development Scotland (SDS) specifically, which may be worth exploring with both parties). They have real concerns that current underspend of monies may influence future allocations from any UK-wide replacement fund:

“SCVO have invested a considerable amount of staff time at our own cost to try and influence this process and to help accelerate the spend in the programme to avoid money being handed back, therefore allowing the UK Treasury to arrive at the assumption that Scotland does not need a Successor Fund because they don’t spend what they have.

We have been ignored, not listened to and dismissed. SCVO staff have extensive experience and expertise in this area and are highly skilled. We made genuine offers to help and our “expert advice” was not even acknowledged on occasions. It is beyond comprehension that the Managing Authority are so unaccountable and the inextricable links between ESIF and Brexit for Scotland are being ignored.”

30. Another SCVO concern relates to restricted access to funds which could be benefiting the third sector:

“Whilst the delays in getting this programme to “open calls” stage was outrageous (almost two years) it is an example of better practice in this programme. The Third Sector Division (TSD) matched all eligible expenditure and where able to offer 100% funding for eligible costs. All rounds were massively oversubscribed and the money will be spent. However, the TSD only had a small amount of money on policy areas that benefit the outcomes of the whole Scottish Programme. SCVO have made representations at
JPMC, to the MA and the Minister to seriously increase the budget of the TSD to accelerate spend in this programme and not have to hand back any more money. This was back in 2016. To date this still has not happened. The lack of urgency and policy ownership is astounding given monies are already decommitted and further monies are at serious risk. SCVO sit on the panels for the TSD funds and there are countless good projects, fit for purpose and eligible being turned away because of a shortage in the TSD budget whilst millions of ESIF sit unspent." (SCVO)

SFC, universities and colleges

31. The Scottish Funding Council uses European Structural Funds mainly to provide additional student places and to support skills development, primarily through colleges. The SFC are lead partners for the Youth Employment Initiative and Developing Scotland’s Workforce Sis.

32. Colleges Scotland show that the various funding streams received by colleges in Scotland are used primarily to provide employability training for those Scottish domiciled people who are further from the workforce. That is, providing vital training to allow individuals to move themselves into a position to enter the workforce and contribute positively to society. There are two main college projects which are significantly funded by the EU. These are:

- Developing Scotland’s Workforce (DSW)
- Youth Employment Initiative (YEI) which is due to end in 2018.

33. The table below sets out the EU funding received directly by the college sector in relation to programmes under the European Social Fund (ESF):

<table>
<thead>
<tr>
<th>£m</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19 (estimate)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSW</td>
<td>4.3</td>
<td>4.3</td>
<td>13.3</td>
<td>21.9</td>
</tr>
<tr>
<td>DSW – Highlands &amp; Islands</td>
<td>2.8</td>
<td>5.5</td>
<td>7.0</td>
<td>15.3</td>
</tr>
<tr>
<td>YEI</td>
<td>13.9</td>
<td>14.9</td>
<td>0</td>
<td>28.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21.0</strong></td>
<td><strong>24.7</strong></td>
<td><strong>20.3</strong></td>
<td><strong>66.0</strong></td>
</tr>
</tbody>
</table>

34. In addition, a recent survey by Colleges Scotland found that approximately £1.5m of direct EU funding is received by colleges through a number of other programmes. These other programmes include European Regional Development Fund (ERDF), Erasmus and Creative Europe.

35. The Royal Society notes that ERDF funding in Scotland is used extensively by Scottish Enterprise and HIE to support businesses to innovate. For example, Scottish Enterprise explain that for the period July 2015 to June 2019 they have been awarded £56m, with much of this funding “incorporated into specific services delivering sustainable economic growth, targeting internationalisation, innovation, low carbon transition, and investment support (via the Scottish Investment Bank (SIB)).”
Understanding current accountability and reporting issues.

36. The Industrial Communities Alliance describes the rules associated with EU funding as “convoluted and excessive”, associated with “labyrinthine bureaucracy – national and local programming, pre and post-evaluation, over-detailed targeting, lack of flexibility and pedantic auditing.”

37. Aberdeenshire Council highlights a significant delay between funding being allocated, spent and finally claimed back from the European Union, and East Lothian Council argue that ESIFs in Scotland have been “blighted with delays”. Some of these relate to initial discussions focused on basic principles such as cost model and participant eligibility. Evidencing participant eligibility and their outcomes has been extremely problematic. For example, with regards the employability programmes, clients with multiple barriers and those furthest from labour market struggle to provide all the paperwork required in a timely manner.

38. A number of submissions have highlighted problems with the Management Information system (EUMIS), which, according to East Lothian and East Ayrshire Councils, was not fully available for use until summer 2017, some two years later than planned. It has therefore been challenging uploading information and this has added to delays in processing claims. HIEP agree, stating that the process of applying for and claiming funding “has required much more resource than previous programmes and the additional bureaucracy is not helped by an unwieldy IT system”.

39. To date, the major hurdles have been in commitment and process, but accountability and reporting have also caused concern, being extremely complex, bureaucratic and inflexible. Dumfries and Galloway Council have experienced some issues around audit requirements changing mid programme resulting in backtracking through previously agreed/approved expenditure to ensure compliance with the changed requirements.

40. COSLA conclude that all these delays mean that, three years into the programming period, few funds have been claimed from the EU:

“Claims are now likely to be made close to “Brexit day” (30 March 2019)… Our member councils have raised repeated concerns, at an official and political level, due to the delays in launching the programmes (a knock-on effect from the prior delay in getting the EU budget agreed) and the general uncertainty around Brexit, some councils might now have difficulty in delivering their committed interventions and making match funding available.”

41. Morag Keith, submitting evidence in an individual capacity and having more than twenty years’ experience in the operation of ESIFs in Scotland, believes that the lack of transparency is symptomatic of poor governance of the ESIF at all levels.”
How current and previous programmes are evaluated and any suggested improvements to the evaluation process.

42. A number of submissions explain that the problem with evaluations are that results only become available “long after the optimal time for implementing many of the lessons learnt has passed” (Argyll and Bute and North Ayrshire councils). Ongoing evaluation should be introduced within all programmes and available from the launch of programmes. For example, Aberdeenshire Council believe that a “facility in the claims system to capture progress updates and case studies would be useful in terms of capturing information regularly”.

43. Shetlands Council argue that evaluations should “take account of the wider socio and economic impacts of funding on individuals, businesses and communities, and the difference funding has made to overcome challenges and maximise opportunities”.

How any future replacement of ESIFs could be used to improve employment, infrastructure and productivity in Scotland's regions.

44. SCVO stress that the status quo should not be an option. Clearly they see an important role for their organisation in managing any future funds.

45. Local authorities would like to see some features of the ESIFs continue in any future replacement programme. For example, the multi-annual nature of current programmes is popular with partners, allowing local authorities to plan ahead and support longer-term investments. Whatever replaces ESIFs should be “focused on longer-term interventions to deal with underlying structural issues” (Dumfries and Galloway Council).

46. Furthermore, most submissions argue that any replacement fund should be “at least equivalent in value to present European Structural Funds allocations”. Despite all their concerns about delays, IT systems and inadequate consultations, most authorities recognise the various benefits Structural Funds have made to their areas. For example, Aberdeenshire Council state:

“European Structural Funds have supported a wide range of development activities throughout Aberdeenshire, with around £17m of grant contributing towards £40m of investment estimated from 2007-2020. The benefits are more than financial, with an estimated 13,687 individuals; 654 businesses and 209 projects set to benefit from funding from 2007-2020, creating some 90 jobs.”

47. Many submissions see the replacement of ESIFs as an opportunity to totally rethink regional economic policy. Argyll and Bute Council welcome this chance to “align a wider range of public spending with the priority of local and regional economic and social development”. Some councils view this in the context of a trend towards regional partnerships, exemplified by regional
partnerships and city deals and some of the recommendations of the Enterprise and Skills Review.

48. Any replacement fund should be allocated on need and not population. Argyll and Bute Council argue that the new fund should be allocated in a “fair and transparent way”. A fair allocation of funding, according to them, should “assist in reducing economic disparities rather than widening the gaps in economic performance with funding support focused disproportionately in areas that are already performing strongly.” Replacement funds must, according to Shetland Council, “strike a balance between meeting local economic and social development aspirations and ensure that the more strategic regional and national outcomes are also met”.

49. Leaving the EU also presents opportunities to change the rules on financial support to businesses, i.e. the State Aid rules that prevent the public sector from providing assistance to companies in a way that gives an advantage over others. North Ayrshire Council, for example, believe that rules on financial support to companies need to be reformed “to enable delivery of more effective support in the places that need it most”. They also argue that “there is critical need for funding and policy levers post Brexit to respond effectively to regional economic shocks”.

50. Most local authorities also see an opportunity to lessen some of the “unnecessary and restrictive bureaucracy tied to current arrangement whilst still maintaining appropriate governance and accountability provisions” (Stirling Council). North Ayrshire Council believes that ESIF-related bureaucracy has become “increasingly excessive and has excluded potential beneficiaries”.

51. COSLA updates us on progress towards the UK Government’s proposed “Shared Prosperity Fund”. They say that discussions with UK civil servants before summer 2017 showed that work had not yet started, officials were “keen to emulate previous EU funding partnership arrangements with Devolved and Local Government representatives. COSLA continues:

“Although we have only had early discussions with UK and Scottish civil servants we are keen now to contribute to the proposed consultation on the UK Shared Prosperity Fund and start early scoping with the Scottish Government. We will also need to tie this in, where appropriate, with discussions with the Department for Business, Energy and Industrial Strategy (BEIS) and the Department for Environment, Food and Rural Affairs (DEFRA), so that the features of the new programmes are finalised well before the closure of the current EU funds allocations. Considering the time this will take, it is a matter of urgency to start that work before the summer recess in 2018 so the new programme can start on time in 2021.”

52. SCVO appear to know more about the Shared Prosperity Fund than any other submitting organisation as they are part of a UK working group looking at the Fund. They inform us that the consultation on the Fund has been postponed until later this year; however they seem quite sure that “owing to a failure to
spend in the current ESIF programmes there will be no additional funding from the UK government”. They express a real anger about this in their submission (see page 8).

**Which level of government is best placed to decide how future funding is allocated and what accountability processes should be in place?**

53. Aberdeenshire Council advocates a flexible approach to local management within a national framework, “with local areas setting priorities based on analysis of local needs and community/stakeholder engagement, within broad national programme parameters”. Many other submissions to agree with this preference. For example, Angus Council and Argyll and Bute Council believe decision making at a local level is crucial to understand the variety of business and employability needs of the local area.

54. Shetlands Council argues that the current ESIF system has become far too centralised and should move back to a partnership model which has “worked well in the past”. All local authorities believe that regional and local stakeholders need to be involved in the setting of programme priorities from the start and also managing delivery of the funds.

**What are the potential opportunities and risks presented by any replacement fund or programme for ESIFs?**

55. Perhaps the most pressing issue is ensuring any replacement fund is in place relatively soon. Professor Steve Fothergill states “the new UK Shared Prosperity Fund needs to be fully in place by the end of 2020 so that there is no damaging hiatus in funding. Beyond the end of 2020 it will not be possible to make new EU-funded commitments even though actual spending on EU-funded projects will continue for up to a further three years.”

56. Most organisations agree that there are a number of opportunities and risks presented by any future replacement fund. The following table summarises these:

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Mentioned by (including):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continued partnership working</td>
<td>Local authorities, Universities Scotland, SFC,</td>
</tr>
<tr>
<td>Medium to long term investment</td>
<td>Local authorities, Prof Fothergill, Colleges Scotland</td>
</tr>
<tr>
<td>Improving structural difficulties</td>
<td>Local authorities</td>
</tr>
<tr>
<td>Reduced administration and auditing burden</td>
<td>Local authorities, Industrial Communities Alliance, Colleges Scotland</td>
</tr>
<tr>
<td>Improved monitoring and evaluation</td>
<td>Local authorities, Morag Keith</td>
</tr>
<tr>
<td>Future evaluations more useful</td>
<td>Local authorities, Scottish Enterprise</td>
</tr>
<tr>
<td>Rethink regional economic policy</td>
<td>Local authorities</td>
</tr>
<tr>
<td>More geographically sensitive</td>
<td>Local authorities, Industrial Communities Alliance</td>
</tr>
<tr>
<td>More flexible in ability to support</td>
<td>Local authorities</td>
</tr>
<tr>
<td>businesses and react to shock</td>
<td>Cities Alliance, Industrial Communities Alliance</td>
</tr>
<tr>
<td>Funding based on need</td>
<td>Cities Alliance</td>
</tr>
<tr>
<td>Ability to reduce thematic restraints of current ESIFs</td>
<td>Cities Alliance</td>
</tr>
<tr>
<td>Ability to change priorities, focus and allocations depending on environmental and societal challenges</td>
<td>SCVO</td>
</tr>
<tr>
<td>Future programmes fully aligned to Scotland’s Economic Strategy</td>
<td>Scottish Enterprise</td>
</tr>
<tr>
<td>Consider more sophisticated selection criteria beyond GDP</td>
<td>Highlands and Islands Enterprise</td>
</tr>
<tr>
<td>Future programmes should be more risk-based and innovative</td>
<td>Universities Scotland, Scottish Enterprise, Colleges Scotland</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mentioned by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding not ring-fenced</td>
<td>Local authorities</td>
</tr>
<tr>
<td>Reduced funding</td>
<td>Local authorities, Industrial Communities Alliance, Morag Keith</td>
</tr>
<tr>
<td>Lack of consultation with stakeholders</td>
<td>Local authorities</td>
</tr>
<tr>
<td>Potential hiatus between ESIF stopping and replace fund starting</td>
<td>Local authorities, Prof Fothergill</td>
</tr>
<tr>
<td>Short-termism</td>
<td>Local authorities</td>
</tr>
<tr>
<td>Undue top down management and direction of the fund</td>
<td>Local authorities</td>
</tr>
<tr>
<td>Using Barnett Formula to allocate funds</td>
<td>Cities Alliance, Industrial Communities Alliance,</td>
</tr>
<tr>
<td>New approach is too rigid</td>
<td>Cities Alliance</td>
</tr>
<tr>
<td>Scottish Government, not the UK Government, should allocate funding within Scotland</td>
<td>Industrial Communities Alliance</td>
</tr>
<tr>
<td>Ensure ongoing interventions continue (for example Graduate Apprenticeships)</td>
<td>Universities Scotland</td>
</tr>
<tr>
<td>Duplication of other schemes</td>
<td>Universities Scotland</td>
</tr>
</tbody>
</table>

Greig Liddell  
SPICe  
3 May 2018