The Highlands and Islands European Partnership (HIEP) welcomes the opportunity to contribute views on post Brexit funding. This should also be read in conjunction with other submissions from individual HIEP partners. In the context of this response any reference to a region should be taken to mean the Highlands & Islands.

EU Structural and Investment Funds (ESIF) in excess of £1 billion have played a significant role in the socio-economic development of the Highlands and Islands since the 1970’s.

- 1979 – 1994 Highlands and Islands Objective 5(b) Programme - £17 million per annum
- 1994 - 1999 Highlands and Islands Objective 1 Programme - £242 million
- 2000 - 2006 Highlands and Islands Special Transitional Programme - £230 million
- 2007 - 2013 Highlands and Islands Convergence Programme - £150 million
- 2014 - 2020 Scotland Programme of which H&I had Transitional Status - £165 million

These funds, intended to reduce regional disparities across the EU, were provided in recognition of the particular challenges facing the Highlands & Islands. The policy frameworks and funding that this brought saw significant improvements across the area with obvious benefits such as transport infrastructure including bridges, roads, airports and harbours. EU funding was also a major contributory factor in setting up the University of the Highlands & Islands through investment in facilities, research capacity, ICT provision, online course development and wider access activities. Broader community benefits have accrued through poverty and social inclusion programmes, green energy developments, tourism initiatives, broadband roll out and cultural enhancements. Other funds such as European Maritime Fisheries Fund (EMFF), LEADER, transnational and interregional programmes exist and have been accessed individually or across key partners to lever in significant financial support.

In the main success has been delivered with local stakeholder involvement, across the whole process, from the design of programmes through to governance and delivery of projects which has had a transformational effect on our area with growth and development benefitting and sustaining our communities.

The Highlands & Islands has significant geographical factors that include remoteness, peripherality, sparsity of population and distance from markets leading to inflated costs of doing business and delivering services. These geographic challenges lead to a range of economic and social inequalities and a top-down, one-size-fits-all approach from national programmes can often struggle to work in the region. A key measure in the Islands (Scotland) Act 2018 is to require everyone who makes or designs new policies, strategies or services to consider how these will impact on islands and HIEP would ask that this...
principle is extended to other areas of the Highlands when policy and funding mechanisms are being formulated.

Nevertheless, current ESIF programmes operate only until the end of 2020 (albeit with spend for approved activities lasting into 2023) so there is a real urgency for detailed planning for any replacement if a hiatus between current and future programmes is to be avoided in early 2021.

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?)

We would ask that the principles go beyond the blunt instrument of GDP per capita and to include population sparsity, peripherality, insularity, economic concentration, remoteness, fragility and rurality. The costs of living in remote rural Scotland continues to be far greater than in other parts of the UK.

There would also need to be a level of flexibility built in to adapt to changing circumstances which responds to regional disparity and is focused on improving regional competitiveness and inclusion.

The current allocation of EU funds to the devolved administrations should be the baseline for determining future funding levels under the UK Shared Prosperity Fund (UKSPF) including rural development/agriculture and fisheries which need to be aligned with the Regional Plan and its delivery agents/mechanisms. This is based on need and there is a danger that a Barnett formula allocation would detract from this.

Policy and delivery mechanisms should be led by the devolved administrations, with the power to devise measures meeting the needs of different regions, on a partnership basis, as part of a place-based strategy. Thus, an appropriate mix of competition and strategic allocations could be agreed at regional level, in line with regional needs and capacity, with sufficient flexibility to vary the delivery model from region to region.

Any funding allocations dictated by availability of match funding would not be supported by HIEP as this would not tackle inequalities between communities and target where it is needed most.

We further support multi-annual funding allocations to give stability and enable longer-term strategic planning of investments. The current 7-year funding period for EU funds seems to work well in this regard.
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?

There is an opportunity to take the positives from previous EU structural funds and develop programmes which are nationally aligned and regionally responsive. The development of a new fund provides a prospect to redesign and strengthen regional economic policy with an adequate budget to support economic growth and regional competitiveness. The starting point must be recognition of our geographical disparities, so that we are able to make a full contribution to Scotland’s and the UK’s economic prosperity. This would require flexibility in how priorities and delivery mechanisms are agreed, with input from regional stakeholders, working in partnership.

HIEP supports retaining the principle of territorial cohesion as it is essential that the UKSPF is seen to directly address regional disparities in order to increase productivity, support economic prosperity, and address permanent geographic challenges.

The priorities of the 2014-20 Scottish Structural Fund programmes have been generally appropriate to meet EU priorities in areas of employment, innovation, education, poverty reduction and climate change/renewable energy, however the lack of a territorial dimension to the priorities has resulted in many of the Strategic Interventions (SIs) having limited relevance within the Highlands & Islands due to criteria such as population threshold and minimum project size. This has had the effect of excluding projects from the islands and remote and rural areas.

It may be more appropriate to consider the seven key themes identified by the Convention of the Highlands and Islands as priorities for our region post 2020 namely: Digital; Skills; Marine; Housing; Transport; Talent Attraction and Energy. This work usefully sets out the challenges faced and the opportunities available for the region.

In addition to this it is proposed that the National Islands Plan will improve outcomes for island communities including: increasing population levels, improving and promoting sustainable economic development; improving transport services and digital connectivity; and reducing fuel poverty. Access to post-Brexit structural funding will be instrumental for islands to achieve these outcomes.

The linkage between the UKSPF and the Industrial Strategy is not seen as an easy fit with rural or island areas. It is seen as having a focus on urban areas or those identified as having an industrial heritage and we would not wish this to be a barrier to the Highlands & Islands. There are also some indications that the scope of the UKSPF is to be widened beyond EU cohesion policy and addressing regional disparities. If this is the case then the overall budget needs to be increased accordingly to avoid funds being spread thinly over a greater number of thematic areas.

What’s required is a long term and strategic partnership approach by the devolved administrations working with regional stakeholders who have considerable experience and
expertise in identifying priorities and challenges. They are best placed to deliver for their respective communities and understand the resources required that are commensurate with the scale of challenge and opportunity. There is little to be gained by criteria and guidelines for programmes which do not meet regional demand. In the Highland and Islands, previous successes have been as a result of stakeholder involvement in programme development, delivery and evaluation. Partnership working will ensure that regional challenges are addressed and opportunities are maximised to bring about a shared prosperity, all contributing to regional and national economic growth.

The key roles of agriculture, crofting, rural development, land management, fisheries and marine funding also need to be integrated into regional support.

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?

The UKSPF should be devolved to the Scottish Parliament but within this framework there should be a further delegation to involve the views of regional stakeholders so that the most appropriate model for the Highlands & Islands is brought about jointly. A one size fits all policy will not work for the UK or even Scotland as a whole which is why it is important to consider a more sophisticated criteria than already exists. This should prevent cross overs, negate unsuitable thresholds and provide a sense of regional/local engagement which is seen as lacking in the current programme.

HIEP would prefer a system that has been described as a Joint Regional Body similar to how the Structural Funds were delivered prior to the 2014 to 2020 Programme. This would see key stakeholders from the Highlands and Islands prepare their own plan, establish the delivery methodology, provide oversight and monitor/evaluate impact. This would mirror the approach currently in operation with Leader where Local Advisory Groups oversee the programme.

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?

HIEP believes that the current two-tier system of SIs and Operations has not worked in practice with significant delays experienced in approval and therefore delivery. There are no obvious additional benefits of this two-tier system. It has resulted in many SIs having limited relevance in the islands and more rural areas due to population threshold and minimum project size thereby excluding the periphery. The process is viewed as being more bureaucratic, top-down driven and inflexible which fails to take into account diverse regional needs or capacity. It is not considered fit for purpose.

Programmes prior to 2014 to 2020, which were delivered by the Highlands and Islands Partnership Programme Executive in partnership with local Stakeholders in the Highlands
and Islands, focused on relevant priorities for the area and were able to spend the Programme’s funds in the area, which is not the case for the current Programme, with significant funds being returned to Brussels. This system had many advantages, such as the ability to synergise activities across funds and sequence projects across a longer-term framework. This provided the Highlands & Islands with a more bespoke approach.

**Barriers to funding projects**

5. What barriers limit strategic intervention funds being committed to individual projects under the current programmes and to what extent should any new structural funding approach address these barriers?

The current 2014 to 2020 Programme is delivered via eleven SIs which are based on EU/Scottish Government priorities. They have no territorial dimension and do not take into consideration the different needs and opportunities of peripheral, rural and island areas.

Any replacement funds must involve those who know the region and who will have responsibility for delivering outputs from the very beginning of the planning period. Ensuring this buy-in, working within an overall national framework, will lead to programmes which are targeted at activities that will have greatest impact. If a Regional Plan approach is adopted with input from regional stakeholders the potential for barriers to arise in the first place is greatly diminished thus ensuring that scale or thresholds are identified and designed out at the outset. Furthermore, if problems are encountered, the appropriate organisations will have a stake in finding solutions, as well as the ability to react quickly. This would also encourage greater cooperation and collaboration across projects and delivery agents, which has been difficult to achieve in the current process.

Match funding has become increasingly difficult and this reflects the current constraints in public sector finances. The need for match funding can undermine Programme delivery. However we welcome the fact that current intervention rates in the Highlands & Islands have exceeded the typical rate of 40% relevant to the fact that the Highlands & Islands are currently classed as a Transition Region within the EU and it is worth acknowledging that a theoretical projection by CPMR indicates that we would remain a Transition Region for 2021 – 2027.

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)?

A more flexible approach to post-Brexit structural funding, away from the one size fits all model, would lead to more successful delivery and greater impact of identified priorities. This would allow the Highlands & Islands to develop their own regionally responsive plans within a wider, national framework, aimed at reducing economic disparities, and addressing differing challenges and opportunities.

There needs to be recognition that impacts and outcomes in islands and remote and rural areas will be significantly different to those of highly populated, urban areas. The value of
interventions should not be judged on broad measurements without considering the fact that even small-scale increase in jobs and productivity for island and rural communities can be transformational. Previous programme successes have been delivered with regional and local stakeholder involvement in development, delivery and evaluation, ensuring that opportunities bring about a shared prosperity.

Delivery Bodies/lead partners need ring-fenced funding, with clear purpose/outcomes defined and guidance (not prescription) on project type. This, allied to the strategic planning required, will ensure that the successor structural funds will bring added value to existing activity and resources.

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?

There should be clear delineation between regional and national programmes to ensure no cross-over, or over-provision in support between schemes and making it clear who the target audience is. Support for employability is a cluttered landscape that lends itself to duplication of target client groups and leads to confusion over which funding stream is most beneficial.

In the current 2014 to 2020 Programme, structural funds have moved from funding large scale infrastructure projects to more revenue-based support. Previous investment in capital projects such as roads, bridges, ferries, harbours, airports, College/University buildings and community facilities have left a lasting legacy. These investments in turn have allowed businesses to compete more equitably with those in other areas and helped people access employment or communities access services that would otherwise be difficult to access. HIEP would support a reintroduction of funding for large scale infrastructure, which in many cases has addressed market failure.

It is important that the principle of additionality remains whereby any new funds should be in addition to public or equivalent structural expenditure.

**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?

The bureaucracy and inflexibility of current ESIF, EMFF and Rural Development funding has proved to be a major barrier to participation for some organisations with delays in approval and complex processes for agreeing changes. Any new system must take advantage of the opportunities to simplify the process and reduce auditing complexities. It shouldn’t start from the premise the applicant is untrustworthy and any new process should take into consideration the level of funds awarded.
There needs to be clear and consistent compliance rules and guidance agreed at the start and any future monitoring, administration or auditing regime should be proportionate and embedded within existing structures. In order to avoid duplication of process the use of the existing internal and external (Audit Scotland) audit systems or its equivalent could be utilised to ensure the Fund is spent properly, efficiently and effectively.

If Local Authorities, as they do in the current system, find themselves in the role of an intermediate body, taking on the financial and legal responsibilities for applications from the 3rd sector, then they should play a part in setting the overall priorities for their area.

A fundamental principle should be that the focus in post Brexit funding is on outputs and achievements, rather than process-driven, as is currently too often the case. Impacts and outcomes should also be proportionate and relevant. A project which creates a small number of jobs in a remote, rural or island area could assist in sustaining the local school, shop or transport system and have a major impact on the area, whereas a project creating the same number of jobs in a large urban area is unlikely to have the same impact.

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

Any claims process needs to be simplified and lose the bureaucracy and complexities that are associated with the current programmes. Local knowledge from regional stakeholders should be utilised to design the new administrative system that will avoid the pitfalls encountered with the current ICT requirements.

Any new system should be adequately trialled in advance so that it is fit for purpose.

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1. The Highlands and Islands European Partnership has a membership of Argyll & Bute Council, Comhairle nan Eilean Siar, Moray Council, North Ayrshire Council, Orkney Islands Council, Shetland Islands Council, Highland Council, Highlands & Islands Enterprise and the University of the Highlands & Islands.