



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 15 May 2018

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 15 May 2018

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ECONOMY, JOBS AND FAIR WORK COMMITTEE

17th Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
Kezia Dugdale (Lothian) (Lab)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Fulton MacGregor (Coatbridge and Chryston) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor John Bachtler (University of Strathclyde)
Professor Steve Fothergill (Sheffield Hallam University)
Robin Smail (European Institute of Public Administration)
Linda Stewart (University of the Highlands and Islands)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 15 May 2018

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the 17th meeting in 2018 of the Economy, Jobs and Fair Work Committee. I remind everyone present to turn off electrical devices so that they do not interfere with the committee's work.

Agenda item 1 is a decision by the committee on whether to take agenda items 3, 4 and 5 in private. Do we agree to take those items in private?

Members *indicated agreement.*

European Structural and Investment Funds

09:31

The Convener: Today, we will continue our European structural and investment funds inquiry.

I welcome our witnesses. The sound desk staff operate the microphones, so there is no need to press any buttons. If you want to say something at any point, please just raise your hand or otherwise indicate to me that you would like to do so. Do not feel that you need to answer every question. If you think that you have not been able to cover a particular point and you want to submit written evidence after the session, please do so.

I will introduce our witnesses. Professor John Bachtler is head of the European policies research centre at the University of Strathclyde; Linda Stewart is director of European and international development at the University of the Highlands and Islands; Robin Smail is a European Institute of Public Administration visiting expert and consultant on regional economic development and European Union structural funds; and—last, but not least—Professor Steve Fothergill is from Sheffield Hallam University.

I begin by asking about an aspect that the submission from the University of the Highlands and Islands touches on. It says:

“The principles and aspirations behind the planning for current allocations”

of European structural and investment funds

“were well intentioned.”

However, it goes on to say:

“Unfortunately, in practice, many of the original aspirations have not been realised. The small number of SIs gradually expanded into a much larger number, which put a strain on the delivery mechanisms.”

I put my question to Linda Stewart first. How have other EU countries and regions allocated, managed, spent and reconsidered their funding arrangements? How can we learn from that, especially as, since roughly 2000, EU funds have perhaps become more bureaucratic or restrictive? We have heard that from others.

Linda Stewart (University of the Highlands and Islands): Thanks very much for the invitation to come to the committee to speak about an issue that is, obviously, crucial to all the key organisations across Scotland in looking forward.

The area is a huge challenge. From listening to the evidence that was given last week, members will be fully aware of some of the very difficult

practical problems in the delivery of structural funds.

I was involved in the development of the current programme and in the previous three programmes. Around 2012 to 2013, we were very much aware, in looking to put the new programmes together, that there had been serious issues—there had been a number of mistakes, and interruptions to and suspensions of the programmes. There was not always very good alignment between national and EU policy, which led to problems with match funding. At that time, there was quite a good process for looking at the new plans that involved key stakeholders across Scotland. We looked very carefully at what the options were and how to maintain some of the good aspects that had been developed in the 2007 to 2013 programmes—for example, the concept of the strategic delivery bodies, which, to a certain extent, delivered very well.

On looking carefully at what was happening elsewhere, at the time the University of the Highlands and Islands did a lot of work with, for example, the University of Corsica on its ESF programme and how it used it. We looked carefully at some interesting transnational aspects of ESF use.

We also did a lot of work with our partners in the northern Scandinavian regions, such as the Akademi Norr in the north of Sweden, on how they agreed the big-ticket issues that needed to be addressed and moved on to address them.

We also looked carefully at what was happening south of the border. We were involved with Yorkshire Universities in a study at the closure of the 2007 to 2013 programmes that considered precisely the point that you raised, convener—what had worked well and what had not. At the Highlands and Islands level, we worked on a partnership basis and carried out a comprehensive lessons-learned analysis of what had worked well and should be maintained.

Putting that all together, I think that there was a good understanding at the start of the 2014 to 2020 programmes of the need to be more strategic and aligned and to look at the implications for match funding if we do not get the relationship working properly. We understood that the money that comes to Scotland through the four ESIFs, although significant in itself and for the work that it does, is only a relatively small part of what is happening through the range of policy initiatives. We looked carefully at what we needed to do.

Even now, I believe that the concept at the start of the current programmes was correct: we looked at a small number of targeted, strategic interventions and the role of the national

organisations—in our case, the Scottish Further and Higher Education Funding Council, which has overall responsibility for further and higher education and research—in administering part of the programme for these purposes. The problems began to arise thereafter. I can speak about those now, or they may come up in our later discussion. The starting point was sound and was informed by what was happening elsewhere.

The Convener: Are there specific points that could be summarised from the studies in Sweden and elsewhere on how things are dealt with differently in other European countries that we could learn from or apply? You could cover those briefly, before we come on to Professor Bachtler.

Linda Stewart: Briefly, the number 1 priority was getting the partnership right—getting the right mix of partners, who are literally stakeholders and so have a stake in making it work, who have a shared understanding of the objectives and who are prepared to work together to achieve them. If there are problems in the process or systems, they can get together and address them collectively. Partnership was the key lesson from what was happening elsewhere.

The Convener: Have we not been doing that in Scotland?

Linda Stewart: We set out with the intention of doing it, but the system has become overly bureaucratic and does not allow that approach. It has taken the focus away from what we are trying to achieve and put it on what we need to do to satisfy the requirements of the process to too great an extent.

Professor John Bachtler (University of Strathclyde): The approach that we have is driven by a number of factors. First, there has been a steady reduction in the amount of funding. Secondly, there has been increasing administrative complexity in the management of the funds. Thirdly, there has been pressure to reduce the errors or problems with the management of the funds. Fourthly, there has been greater pressure to improve performance.

Those factors have been driven partly by the regulatory framework and partly by our own experience. We have progressively centralised the management of the funds and rationalised the architecture for implementing them. There is a logic to that, and we are not alone. We can see a similar process in Sweden and Finland, for example, where, in the current period, there has been a rationalisation of the administrative structures and the number of programmes. However, that is not the case everywhere. In some countries, such as France, there has been a trend towards greater devolution or decentralisation.

As Linda Stewart said, the changes that have been made have been well intentioned but, in the historical and comparative context, we have lost a valued element of partnership working in the arrangements. We have lost a degree of challenge that was built into the system, if you like, given the range of partners involved in implementation.

To take a longer-term view, we have also lost a degree of innovation and experimentation in our approach. In the 1990s and early 2000s, there was a very different funding context. Scotland had a reputation for pioneering the use of structural funds, particularly in areas such as community development, in terms of evaluation, equal opportunities and so on. The pressures of the complexity of administration in its broadest sense have, perhaps unavoidably, pushed us towards the current model. Whether or not Brexit had come along, there would have been an opportunity now to rethink where we go from here.

The Convener: We will move on to questions from Andy Wightman. No doubt other members of the panel will follow up on some of those issues as we progress.

Andy Wightman (Lothian) (Green): I am interested in the fact that there are 39 subregions in England. Is each of those a managing authority?

Professor Steve Fothergill (Sheffield Hallam University): I am not sure of the exact terminology but, de facto, the local enterprise partnerships take the decisions and oversee the funding in each of their areas. The fact that there are 39 separate local financial allocations in England distinguishes the English situation from the Scottish situation, which effectively has two allocations—one for the Highlands and Islands and the other for the rest of Scotland. There is no specific targeting of the poorest areas in the rest of Scotland, which is a big and diverse area, whereas such targeting happens in England. That targeting is quite strong, with some areas receiving five or 10 times as much, on a per capita basis, as the most prosperous parts of the country.

Andy Wightman: Why is there such a distinction between the arrangements in Scotland and England?

Professor Fothergill: My Scottish colleagues will probably know better about the distinctive Scottish situation. Outside the Highlands and Islands, all the Scottish subregions fell into the same statistical category for European purposes, so the money that the Scottish Government received for that area was bundled into and managed as a single programme. That was not an option in England because of the sheer diversity across the country. I think that that is correct.

The Convener: Robin Small wants to come in.

Robin Small: It is “Smail”, convener.

During the previous Labour Administration there were regional development agencies in England, which were scrapped when the coalition Government came in. If I am not mistaken, the regional development agencies were the principal vehicle for the delivery of structural funds programmes. I am not sure whether they were managing authorities but in most cases they worked with a regional strategy.

With the abolition of the English regional development agencies, the local enterprise partnerships came in. I do not think that they are managing authorities; they would be classified as intermediate bodies that carry out many of the functions of a managing authority.

In most member states, the managing authority is usually a department of state or a ministry, but it will frequently use other ministries, agencies or quangos to act as intermediate bodies on its behalf and to hand out the grants and funding to the beneficiaries, which can include a great range of organisations that, in turn, can hand out the funding to the ultimate recipients, which might be companies, individuals or organisations.

09:45

Andy Wightman: We will come on to discuss what might happen in the future, but we will assume for the moment that there will probably continue to be a fund of this character, which we can call the shared prosperity fund. Do we need more regional targeting? In the Highlands and Islands, there is frequent criticism that Inverness gets a lot of money although it does not need it, while it can be argued that places such as Skye, the Western Isles and parts of Argyll need regional funding much more.

Linda Stewart: It is notoriously difficult to strike a balance. At the start of the current programs, there was some value in having a single pan-Scotland programme for the European structural fund and another one for the European regional development fund. However, we must then consider how those are administered, and examine the governance beneath the single programmes. There were advantages to the Highlands and Islands’ ability, as a transition region, to look at funding allocations in the knowledge that they were ring fenced, but there was not sufficient control over how we would prioritise issues and deliver.

As Andy Wightman said, we will discuss what will happen in the future, but looking forward, we need to do more work on getting the balance right between having shared national strategies that we work towards and the ability to act at a more

granular level throughout Scotland. I agree with what you said, in that regard.

As far as it went, the strategy in the Highlands and Islands was good, but Andy Wightman is absolutely right that there is continuing tension about a lot of funding going to Inverness. The partners across the Highlands and Islands are very much aware of that, and have extremely robust discussions about it. In the objective 1 days, a great deal of ERDF money was invested in Inverness airport. However, because that brought business, tourists and a lot of investment up to Inverness, we were thereafter able to develop the regional airports and to spread the benefit across the Highlands and Islands. That is the sort of approach that we need to think about.

Professor Bachtler: A factor that we must take into account is the extra conditions that have applied to use of European Union funding during the period. First, there has been the principle of thematic concentration whereby, in the Highlands and Islands, at least 60 per cent of ERDF funding has to be spent on innovation, information and communications technology, small and medium-sized enterprise competitiveness and low-carbon issues. In the lowlands and uplands area at least 80 per cent must be spent on those.

Secondly, there is pressure to spend from what is called the decommitment rate—essentially, if funding is committed but not paid out, it is lost.

Thirdly, there is results orientation, which is the pressure on performance. Essentially, you sign up to certain outputs at the start of the programme and are held to account for their delivery.

If we add to that the bruising effect of the experience in the recent past, with suspensions and so on, you can see why one strand of thinking in the Scottish Government has been that we should show that we can deliver the programme well, that we can spend the money, that we can do it in line with targets and that we can meet the principles of thematic concentration. The question is, where are the innovation projects, for instance?

There is also thematic targeting in terms of education, skills, poverty and inclusion—in particular, with the European social fund. However, the context during the period has been that there have been much tighter constraints on those who are responsible for managing delivery of the funds.

Andy Wightman: You are suggesting reasons why there has been limited scope to take a better regional approach.

Professor Bachtler: There are a number of domestic architecture and economic development factors. However, experience tells us that factors

that come from the external environment, including the regulatory framework, are also significant.

Andy Wightman: Are the four reasons that you outlined important factors to take into account in the design of any new scheme?

Professor Bachtler: Yes. However, there are opportunities to rethink some aspects of the constraints that are potentially less relevant, such as the decommitment rule, which was designed particularly to deal with problems in Italy and other countries in central and eastern Europe. There is the question whether we want, EU wide, the degree of thematic prescription that we have had, and there are questions about how we manage performance.

I am not saying that we should scrap all those requirements, but there is an opportunity to think about what our domestic priorities are. What has been the experience of administration of structural funds? There are a number of important principles, which we will perhaps come on to, that we would certainly want to retain: many position papers that organisations in Scotland and elsewhere in the United Kingdom have put forward have advocated retention of certain principles. However, we have an opportunity to rethink some of the principles that I have spoken about—thematic concentration, performance management and decommitment.

Professor Fothergill: The European funds—as their successors will be—have been about improving the performance and economic wellbeing of the less-prosperous parts of Scotland and Britain as a whole, so we expect that there would be some geographical targeting. There is huge diversity in the areas of Scotland outwith the Highlands and Islands. I believe that the gross value added—the output per head—in the Aberdeen city region is about 135 per cent of the UK average, whereas in the Glasgow city region the figure is only about 90 per cent of the UK average. If we are to use the funds to try to bring up the Glasgow figure, we would expect there to be some distinct targeting of the funds on the Glasgow city region, but that has not been happening, as I understand it. As I said, in England there is much greater targeting of funds at less-prosperous parts of the country.

Robin Smail: The convener asked about how our other European countries manage their funding arrangements. I would repeat Professor Bachtler's observations about concentration. Centralisation has taken place in some of the smaller and better-off EU member states; as their funding has gone down, there has been a natural progression back to centralisation of programmes.

The larger member states—Germany, Italy, France, Spain and Poland—still have regional programmes, and each programme has a strategy

on and an approach to what it will do in that region. The regions vary in size—from populations of probably no more than 1 million up to regions with 12 million or 15 million people, and even 18 million in Nordrhein-Westfalen, for example. There is a huge range in the size of regions that can have a regional programme. As Professor Fothergill said, we always have to ask ourselves what level of territorial or geographical distribution we want. Experience tells me that in Scotland we have a good-sized programme that covers 5 million or so people, but that is not to say that there should not be subregions.

Studies have come from the EU and the World Bank recently that have highlighted huge regional and subregional disparities, which is a growing problem. The studies note that cities and secondary cities are the powerhouses of most wealth creation, and are creating 40 per cent more GVA than their hinterlands.

In some member states, the problems of rural areas are absolutely massive—not least because of depopulation. The studies, of course, recommend using appropriate targeting within regional programmes, whichever programme is chosen. They recommend that countries identify clearly their strong endogenous assets, what sectors they need to develop and how to introduce new technologies to those sectors. The studies also recommend the use of smart specialisation strategies for subregions and finding competitive advantage. More than anything, the studies highlight growing disparities.

John Mason (Glasgow Shettleston) (SNP): I am a wee bit unclear about what you are saying, Mr Smail. On the one hand, you are saying that we should take Scotland as a whole because 5 million people is quite a good size, but you seem to be saying on the other hand that there is disparity; there are, for example, areas in Fife, Ayrshire and North Lanarkshire that traditionally are clearly in greater need. Are you saying that we should or should not target?

Robin Smail: I do not know whether the convener will come to this point, but I do not want to miss the opportunity to say this. I have spent 25 to 30 years examining EU programmes. Scottish programmes, and British programmes in general, are exemplary: they are among the best in terms of strategic alignment, design and structure, application of the partnership principle, project selection and delivery mechanisms, measurement of progress and success, and their evaluation practices. Scottish programmes have been among the best in most aspects of their operation.

In my experience, it is sensible to have a regional strategy and to take a strategic approach to a geographical area with a population of 4 million to 6 million, because there is a lot of

evidence that that works well. However, within that, you need to identify subregions and subregional problems, as well as local and community problems. The strategy exists to decide what the priorities will be within that economic region.

Jackie Baillie (Dumbarton) (Lab): I am genuinely surprised by what you are saying. As someone who, perhaps 20 years ago, used to write and manage ESF and ERDF projects, I can say that they did not feel so good from where I was sitting. I want to follow up on Linda Stewart's presentation. The criticisms of the operation of ESIF, such as those about it being overly bureaucratic and lacking flexibility, and about changes to eligibility criteria, were all current when I was writing ESF applications.

I am interested in the learning journey that the UHI has been on. I know that you talked to universities in Corsica and Sweden. Was that for the 2007-13 programme or for the 2014-20 programme? I am keen to know how we can finally get the practicalities and the nuts and bolts right in any future shared prosperity fund.

Linda Stewart: That is a very interesting question about how we bring things together. In the work that we did on preparation of the current programmes, we used our UHI experience of working with partners across Europe, picking up some of the approach that Robin Smail outlined. We also looked at the work of partners across Scotland. Remember that in the early days a very good consultative approach was taken to developing the 2014 to 2020 programme, and there was a lot of detailed discussion about how we would approach it.

10:00

We also looked at some of the simplified cost options that were coming from the European Commission, such as use of unit-cost methodologies, flat-rate costs and other new options. We spoke to people in other member states who had piloted such options, and we piloted some of them in the UHI during the 2007-2013 programmes. There is a lot of valuable experience on the advantages of some of the new approaches, as well as on some of the pitfalls. There is no magic-wand answer to all of this.

In terms of the nuts and bolts of the administration and management of programmes, there is a lot of potential. As we have seen, there are current problems. I do not know whether we want to go into them in more detail; overwhelmingly, they are practical problems that need to be addressed and for which there are solutions.

Let us not lose sight of the incredibly good work that ESIF has done across Scotland, especially in the Highlands and Islands, since the 1990s. The long-term strategic planning approach and, in particular, partnership working have delivered really well for Scotland. Let us fix the relatively minor issues where we can, and get something even better next time round, whether it is a shared prosperity fund or some other mechanism.

As John Bachtler said, even without Brexit, we would have been looking at a substantial change at the end of the period to 2020 anyway, so there would be a need to address some of those issues and perhaps to consider a substantially different approach.

The Convener: Professor Fothergill wants to come in on one or two points.

Professor Fothergill: I want to pick up on what was said earlier about the size of the units through which European funds are allocated or managed. In England, many units are as small as 0.5 million people; that is probably the size of about half of the 39 LEP areas. To put the Scottish situation in context, in the part of Scotland that is not the Highlands and Islands, the population is 4.5 million, and only one programme area in England exceeds that: London—which, for obvious reasons, is a single programme area. However, every other allocation in England is for a smaller geographical area than those in Scotland.

Jackie Baillie: Can I carry on, convener?

The Convener: I think that Professor Bachtler wants to come in on your question, and then I will come back to you.

Professor Bachtler: I want to pick up on a couple of points. First, I would perhaps be less complimentary than Robin Smail has been about the UK's track record. In the evolution of structural funds in the UK and Scotland, we have seen more chopping and changing—more institutional change—than in any other member state. We have lost serious institutional memory at the expense of stability and a long-term approach. Stability is not always positive, of course, but that is, nevertheless, what has happened. However, I agree that administrative capacity below member-state level and especially at subregional and local levels has been excellent. It has been the partners that have provided consistency in administration.

On John Mason's question, we are probably talking about both levels. At national level, as research by the Organisation for Economic Co-operation and Development on the regional challenges facing Europe shows, there are issues of intensified globalisation and technological change, including the impact of artificial intelligence. Those are nationwide issues, so there

is a rationale for having a strong strategic approach at Scotland level.

There is also the impact of Brexit to consider. Its impact is unknown, but potentially the deal that is reached—or not reached—and the trade arrangements that will be made could have profound sectoral impacts across Scotland, which will have spatial consequences, so there is a need for a strategic role.

However, there is also scope for rethinking our subnational approach. We have the challenge of ensuring that our cities are drivers of Scottish competitiveness. We also have the challenge that parts of our cities in particular have entrenched social inclusion problems—local entrenched problems of underemployment and so on. Furthermore, we have problems outside the cities' hinterlands—the travel-to-work areas outside the cities, in particular the small towns and rural areas that have suffered from the loss of major employers because of, for example, the retail sector collapsing, banks withdrawing and post offices and major stores closing. Therefore, we need to consider multilevel approaches.

Jackie Baillie: Last week, when representatives of the voluntary sector, which is a key partner, gave evidence to the committee, they were critical of the approach being taken, which does not chime with what you are telling us. How well does the voluntary sector engage with managing authorities? Is there a need for change?

There is a degree of clawback of the 2014 round taking place, principally from the voluntary sector, and the percentage is high compared with previous years. There is also the danger of underspend in the 2014 to 2020 programme. Might that be a problem for us as we move across to new arrangements?

Linda Stewart: I will start off with a few specific points. I am aware of the problem generally across Scotland and, as you would expect, more specifically in relation to what is happening in the voluntary sector in the Highlands and Islands, where there are undoubtedly difficulties.

There are a lot of challenges to do with the complexities of the bureaucracy. As you went into that issue in a lot of detail last week, I will not rehearse the same lines again. However, it has proved difficult for all partners—it has certainly proved difficult for my organisation. We run a large ESF programme on developing Scotland's workforce with the Scottish Further and Higher Education Funding Council, totalling more than £30 million. We have had huge problems, which have primarily been to do with how long the process has taken us to get to this stage, and they have had a knock-on effect on spend, on hitting targets and on achieving the synergies that we

had anticipated. We have perhaps been fortunate, because we have had a good working relationship with the Scottish funding council to address the problems. The situation has been hugely frustrating and it has all taken longer than it should have done but, collectively, we have been able to work with the managing authority and eventually get to a reasonable operational point with that major programme.

However, for a small voluntary sector organisation without that resource or the historical knowledge and understanding of how the programmes work, it would be substantially more difficult to address those challenges. That issue needs to be picked up.

Perhaps, on the plus side—if I am allowed to be positive—a lot of serious talking has been done on the mid-term evaluation of the ERDF and ESF programmes. The managing authority has recognised, to an extent, a lot of the difficulties. It has put forward a number of solutions that will help, including more regular partner meetings at which such operational programmes can be discussed. A major drawback of the governance in our programmes 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.

There are moves afoot to improve the situation. However, it is incumbent on beneficiaries—whether that is the voluntary sector, my sector or whatever other sector—to grasp that issue and say, “Okay, guys—we really need to have that detailed discussion.” We need to make sure that there are mechanisms that allow issues to be brought to the table and for us to be able to work together until we can find the solutions, instead of having a protracted system in which, typically, email complaints about things are put to one person after another, and by the time you eventually come to a conclusion—even if it is a positive one—other problems have amassed. That has been at the heart of some of the difficulties that we have had in the first phase. Let us grab the opportunities that are here, in phase 2, to sort things out while we can.

I will finish by saying that we absolutely need to avoid the level of decommitment that we have had in the past year—that is a given. We also need to look carefully at the implications for the performance reserve for the programmes at the end, and at the missed opportunities that there will be if we do not get our act together right now.

Jackie Baillie: I am particularly interested in pursuing whether our panellists think that we are heading for an underspend, and what the implications of that would be for any future funding.

Professor Fothergill: I have been talking to the civil servants—certainly those down in London—about that. At this stage, the financial commitments in the current spending round are running at roughly the same level as those in the last round. I understand that they are, in fact, slightly ahead. However, financial commitment is different from outturn spending, which lags a long way behind in the process. If we were to look at the figures for the present spending round, which is from 2014 to 2020, we would find that only about 10 per cent of the money that has been allocated has so far been spent. However, alarm bells should not ring because of that because, in practice, the spending comes through well behind the commitments. In fact, getting the money back from Europe comes last of all in the process. I would not yet ring the alarm bells, but I think that that needs watching.

Robin Smail: I have the figures here, because we can access progress at member state level on the open data platform of the DG Regio website. As Steve Fothergill has said, in terms of commitments to approved projects, the UK is the third best performer in the EU right now. We have earmarked a lot of our spending—nearly 60 per cent—already, which is good. However, we are only average for spending on the ground—for the beneficiaries using the money. We are only in the middle of the pack for that. Unfortunately, the website does not give us a breakdown by programme; for that, we have to look at the annual reports and so on.

The Convener: I am conscious of the time, and quite a number of committee members want to come in with further questions. After Professor Bachtler comments briefly, we will move on to a question from Fulton MacGregor.

Professor Bachtler: Yesterday, I had a look at the comparative figures for Scotland relative to the UK and the EU. As Robin Smail has said, when it comes to the commitment of funding, Scotland is up there with the EU average and, in some respects, is even ahead of it—as is the UK as a whole. However, in terms of paying money out, we are at about a third of the EU level and half of the UK figure. It might not yet be a case of pressing the panic button, but there are some issues there.

Fulton MacGregor (Coatbridge and Chryston) (SNP): Good morning, panel. My question relates to regional variations, on which a lot has already been teased out by other members and we have had quite a good discussion. However, before the convener moves on to another line of questioning altogether, perhaps I could bring that theme together by asking a direct question. Do panel members think that the current programme works for the diverse regional areas of Scotland?

10:15

Robin Smail: For the local areas?

Fulton MacGregor: Yes, for the various regions of Scotland, rather than the two already identified.

Professor Fothergill: I have already made my views on that clear. There is a distinct lack of targeting in Scotland, so the way in which the system is established at present is not working as well as it could.

Linda Stewart: I would back that up from a Highlands and Islands point of view. As has been touched on, there is a lot of potential for high-level strategic input at the subregional level to the Highlands and Islands, with our allocation of transition region funding and some of the particular aspects that John Bachtler outlined earlier. One of the problems is that there is no mechanism to assess our flexibility to address specific problems at subregional level. We have had a fair amount of challenge doing that across the Highlands and Islands. To pick up on the previous point, alarm bells are already ringing about the current levels of spend. They are troubling in Scotland as a whole, and we can see the evidence of that in the decommitment levels last year. It is even more of an issue in the Highlands and Islands and, unless something is done to address that, we will be in the same position going forward. That is why there is urgency in dealing with this.

We need to look carefully at the situation and ensure that it is not just the strategy but the delivery mechanisms beneath it that will allow for flexibility to spend money on regional priorities in a way that enables regional partners to do so. It is not that we have a lack of projects in the Highlands and Islands—there are issues with matched funding, but that is often not the definitive factor—but that the mechanisms do not allow us to bring those projects to the table and deliver on them within the current structures.

If that is an issue for us in the Highlands and Islands, the point has already been well made that we need to look at greater granularity in what is happening in the lowlands and uplands Scotland programme region. There is huge diversity across that region as well, and it is difficult to look at how you deliver with an approach that is just pan-Scotland.

Professor Bachtler: Assessing or concluding whether the current programme has worked will have to wait until we can get some serious evaluation, particularly because money that is being paid out is still at a relatively low level and we are only part of the way through the period. At national level, the strategic objectives of the programme are to improve innovation, information and communication technology, small firm

competitiveness, low carbon and skills, and each of those has different experiences in terms of take-up and spend, as you can see from the annual implementation reports.

The likelihood is that there will be significant evidence of effectiveness at national level. The question is whether it is effective at sub-national level, particularly at local level, and the degree to which local authorities and other partners are in a more responsive mode. If we link that to the hollowing out of local authority capacity that has taken place over the past decade, and to the capability for driving strategic change at local level, I think that there will probably be some questions about that, but we will have to see the evidence.

Robin Smail: You have really made me think. I am not so close to the Scottish situation as I used to be when I was working with Scottish Enterprise, because I have been on the continent for so many years. Our problems would not be ours alone. I cannot answer your question, but I know that in many other parts of the EU there are problems with the engagement of certain sectors. For example, how to help the most deprived communities and the people with the most serious problems is an issue everywhere. There is a tendency for the programmes to recruit or provide funding for those who are most likely to come forward and participate in courses. It is called creaming. Like taking the cream off the milk, you try to achieve your results in your initiative, and they look quite good because you have gone for the people who were most likely to come in for help anyway.

I heard recently that going for the hard core is a challenge in Poland, Latvia and Hungary. It has been the same in Belgium and the Netherlands. That is a typical challenge right across the EU.

Is it because of our strategic approach or administrative structures? I am not close enough to be able to say that.

There are other similar examples right across Europe of where helping certain communities and subregions is a challenge, although there are obviously wonderful cases in other member states. I am sorry to hear that there have been delivery problems in Scotland. I stand by what I say: in my experience, from being in DG Regio as a national expert in the early 1990s until now, our programmes are relatively good.

Fulton MacGregor: My question follows on from that answer—and I thank all the witnesses for their responses. I represent a fairly deprived area of the country—an old industrial town—and I am also a member of the cross-party group on industrial communities, as Professor Fothergill knows. If you took Coatbridge and Chryston as an

example, you would say that it is a deprived area, and you could target specifically for that. However, within that area, there are some quite affluent areas. How do we target even smaller regions to make sure that we do not get the wrong group? I know that that might open up a full new discussion and I appreciate that we are short of time but I would like even just one answer.

Professor Fothergill: Sometimes, the best way to help a specific small area, such as Coatbridge, is not necessarily to target all our energies on Coatbridge. Regional and local economies seem to function at a subregional scale. Sometimes, the best way forward is to grow the wider area within which Coatbridge is located, such as west central Scotland. The failure of the European funds to specifically target the less prosperous subregions is their great shortcoming.

That said, when you are looking at, say, training programmes that target individuals rather than businesses, there might be a more compelling case for going in hard in some of the most deprived communities to get below the cream, as Robin Smail put it.

Professor Bachtler: It is interesting to note that, at the start of the current period, the European Commission was particularly concerned about the Coatbridges and others that are in a similar situation. It was concerned that structural funds were being strategically designed and spent at too high a level. It introduced what it called integrated territorial provisions, which are implemented, in the jargon, through integrated territorial investments and community-led local developments. The Scottish Government decided not to take that route because it argued that there were domestic opportunities that could be taken.

However, if we look back at the early experience of using those new integrated territorial provisions across Europe, we can see that they revitalised new approaches to sustainable urban development, particularly at the level of towns, neighbourhoods or communities. Quite a lot of interesting new thinking has been going on, and we can learn from that regardless of Brexit. It could be particularly relevant to Fulton MacGregor's constituency and others.

Colin Beattie (Midlothian North and Musselburgh) (SNP): The shared prosperity fund has been referred to. Ideally, when should that fund be put in place? In the lead-up to its being put in place, what should the process be to establish it? What consultation should take place to determine how it will operate?

Professor Fothergill: We need a fund that is operational from 1 January 2021 so that there is no hiatus with the ending of the existing structural funds. Even though we are likely to leave the EU

in March next year, our access to the structural funds and the making of new financial commitments will trundle on right up until the end of December 2020. We want a seamless transition, and we have rather longer to make that transition than we first thought would be the case, as we thought that the cut-off would be March 2019.

On the process to get there, my understanding is that the Westminster Government will launch a full-scale consultation exercise. There was a commitment to launching such a consultation in the Conservative manifesto for the previous general election, and the last time that I spoke to the civil servants their expectation was that that consultation exercise would probably be launched in the autumn of this year. Therefore, we have quite a bit of time in which to develop and plant ideas even before the consultation exercise starts. I suspect that, when that consultation emerges from the Westminster Government, it will not be in the form of, "Well, chaps, we've got an issue. What do you think we should do?" I think that the Westminster Government is already formulating ideas about what the post-Brexit world might look like and it will make suggestions, so it will be halfway there by the autumn.

The timing of the committee's inquiry is exceptionally fortunate. If the committee can say something about the issues on this side of the summer break, that will perhaps help to shape what emerges in the Westminster Government's consultation exercise.

Professor Bachtler: There are three separate issues that relate to the future of funding arrangements after Brexit: policy, money and the institutional arrangements. The policy issue is fundamental, and we have not really started to consider it. One concern is whether the consultation will be sufficiently policy led that it will open up where we want to go, even if there are transitional arrangements, in order to get us to somewhere that involves fundamental reform.

The second issue is money. The indicators that are used for the allocation of funding are crucial. In the current period, Scotland did exceptionally well, getting probably around 40 per cent more than it would have got with the application of the EU funding formula. Wales and Northern Ireland did exceptionally well, too, pretty much at the expense of England. Therefore, there are important political and other questions about the allocation mechanisms.

The third issue is the institutional arrangements. A UK-wide shared prosperity fund has been presented. The question is how that will work with the devolved Administrations and the city authorities or city regions, local authorities and so on below them. I suspect that, when it comes to

the money, a degree of continuity will be critical to ensuring that there are no sudden breaks. We know from research that sudden breaks in the allocation of structural funding or in other funding streams can be really damaging to regions. We have seen that in South Yorkshire with the downgrading of its EU funding status, for example.

Nevertheless, there are some important principles that we should think about designing a shared prosperity fund around. As I have said, one of those principles is devolution or decentralisation. A second principle is multi-annuality, which would ensure that there was predictability and that we did not go back to the days of annual budgeting. A third principle is partnership, both national and sub-national but also horizontal. That would perhaps reinvigorate the approach and address some of the problems that we have talked about. Another principle is integration, which would mean bringing together different funding streams in a common framework. Another principle is accountability, which would be about transparency and openness.

Those are some guiding principles that we could think about in considering what we want to keep from the structural funds experience.

10:30

Linda Stewart: I will pick up on a couple of points, although the previous two speakers have set out the key issues that we need to be aware of.

On the issue of when we need to consider putting in place whatever is to replace ESIF, whether that is a shared prosperity fund or some other mechanism, there is real urgency. John Bachtler mentioned the danger of a hiatus in funding. Even if we were not looking at a very different situation post-Brexit, we would be putting on a lot of pressure to ask for the conversations about what comes next to start now. There is always a substantial change when one ESIF programme ends and the next begins, and the likelihood is that there will be more of a change this time round. It takes time to develop a new approach, particularly if there are substantial changes, and we particularly need to consider bringing in more of a partnership approach. Whatever we put together will not work unless the people who will be involved in delivering it, those who will take responsibility for it and the beneficiaries fully buy into it and can deliver. Those are important points.

On the policy issue, for the Highlands and Islands, the development of the entire region since the 1990s is a direct result of the EU territorial cohesion policy and its recognition of regional disparities. Without that, we will have very serious

issues. Those issues will be in some of the specialised areas that we have mentioned but, particularly in the Highlands and Islands, we will still be sparsely populated, we will still be remote and rural and we will still have about 94 inhabited islands. There will still be structural issues post-Brexit, no matter what. However, we will still have opportunities in things such as marine energy. We have about 10 per cent of Europe's wind energy potential and up to 25 per cent of the wave energy potential. We are not just going in with a begging bowl; we are saying that, with the right kind of help, we can contribute. We must get to grips with similar issues right across Scotland when we are planning, and that will take time.

An important point about the consultation is that we need to start addressing some of the issues now. I do not want us to have a consultation that simply asks whether people agree. We must start influencing the shape and the direction of travel before it comes to consultation.

There will be an awful lot of changes but, if we get it right, we should be able to develop something that will maintain the benefits that we have had in Scotland from ESIF over many years and that will maybe address some of the current procedural and system issues. It is a big challenge, but it is worth going for.

Colin Beattie: We have consistently heard reference to overly bureaucratic processes and inflexibility. Are there any indications that Westminster has taken that aspect on board and might be prepared to address it?

Professor Fothergill: If we take the Conservative Party manifesto at face value, the answer is clearly yes, as it promises a new fund that will be less bureaucratic and easier to administer. There is no detail as to how the Conservatives are going to do that, but the intention is absolutely there.

Colin Beattie: Perhaps relying on a Government manifesto is not the best way forward on this.

Professor Fothergill: That is the only Government statement at this point in time. That is all that we can work from.

Colin Beattie: There is nothing else.

Professor Fothergill: As best we can tell, ministers have not progressed their thinking very far, if at all, beyond what was in the 2017 manifesto.

Colin Beattie: Is that not a bit disappointing, given that we are talking about a consultation starting in the autumn? Should the Government not be a bit further down the line in developing its ideas?

Professor Fothergill: You might have thought so. However, given that it stitched up the divorce deal in December, which, in a sense, postponed D-day on all of this from March 2019 to December 2020, I think that it has taken its foot off the accelerator a little bit on the issue.

Robin Smail: I do not think that we should be waiting for these papers. As Linda Stewart said, Scotland should be working with its regular partnership now. The partnership may need to be extended or tweaked, but this is the time to be working up a Scottish economic strategy, a Scottish national development plan or our approach to our part of the prosperity fund. This is the time for the consultation and the drafting, with the ex-ante appraisal taking place in the next year or two. Everything should be in place and ready at the beginning of 2021.

We have a very different model to the English set-up. Steve Fothergill seems to be extremely enthusiastic about the local envelopes of money, but I think that it is absolutely vital that Scotland maintains its strategic approach at that level, with the ability to devise local envelopes for sub-regions as well. However, now is the time for all of that to be engaged with.

My calculations suggest that the net contribution that the United Kingdom makes to the European Union makes would fully finance the funding of the shared prosperity fund, replacing the European structural and investment funds. The money is there. However, whether the UK Treasury is prepared to hand over that money is another question. I expect that it will claw back a substantial proportion. That means that you will probably be working with a lower level of funding. You will then have to select what you do more carefully. It is, therefore, extremely important that the strategy is well worked out.

Working on the continent, as I mainly do, I can say that the Scots have to think about what it is that distinguishes Scotland from other parts of Europe, what the areas are in which Scotland is seriously lagging behind, why Scotland's rate of economic growth is not as high as it should be and why we are not dealing with problems of deprivation in the way that we might. We need to get to the nuts and bolts of those questions. What strikes me, above all, is the lack of vibrancy in the private sector and its size relative to the private sector in other parts of Europe. The issue involves investment, the size of the company base, start-ups and, perhaps, the nature of deprivation and the mobility of people across social classes, if I dare use that phrase.

We need to choose carefully. When you have a budget pressure, you need to select carefully what your priorities are.

Professor Fothergill: I think that Robin Smail is accepting defeat on the size of the fund before we have fought the battle. We should be asking for a UK shared prosperity fund that is worth at least as much as the European funds that we receive at present. In practical terms, allowing for the inflation that we have had over the past few years, that means that we need to be asking for a UK shared prosperity fund of at least £1.5 billion a year. If we do not get that sum, we face cuts in real terms, which will mean that we all face problems. It is going to be a lot easier for everybody in all parts of Scotland if the overall UK financial envelope is of the size that we need it to be.

Robin Smail is correct in saying that the money is there in the Treasury. It is not money that the chancellor has to find; it is money that he will no longer be handing over to Brussels and will, therefore, have available for domestic spending.

There is already a line in the Office for Budget Responsibility's financial estimate into the 2020s for UK domestic spending in lieu of EU transfers. The money is there.

The Convener: Gillian Martin might pick up some of those themes.

Gillian Martin (Aberdeenshire East) (SNP): Yes, I will pick up many of the things that have been said so far. It is clear that we are saying that we want the funding to continue at the same level or to increase, but there is a concern that Scotland has punched above its weight in getting access to the European structural funding, and so there is a nervousness that the amount may decrease. What do you think should determine Scotland's regional and local allocations from the shared prosperity fund? What procedures should be in place?

You talked about Aberdeen and Aberdeenshire, which is where I am from, and you mentioned that GVA is high in Aberdeenshire. However, that is money that is earned in Aberdeenshire, but does not necessarily go into the infrastructure of the area—you just have to look at Union Street to see that that is the case. There are pockets of poverty in Aberdeen city and rural poverty in Aberdeenshire. GVA cannot be the measure because if it were, we would not get anything.

How do you see that allocation process going forward so that we can protect Scotland's success and also take into account some of the things that you have mentioned about granularity?

Professor Fothergill: I have been doing some hard numbers-based work on potential allocation formulae. I have been doing that work with Malcolm Leitch from Glasgow City Council, who appeared before the committee last week. We have been experimenting with certain numbers and looking at how that would work out for

allocations between the different nations of the UK and the results if the formulae were applied to local areas. The conclusion that we have reached on the division of the funds between the four UK nations is that you cannot replicate a division that is at all similar to the current division of funds, unless you undertake some extremely convoluted statistical manipulation. I will not go into detail on why that it is, but it basically relates to the changing relative prosperity of certain English subregions that have slipped down the rankings and would therefore get more funding, other things being equal.

Having said that, I would not give up on the idea that Scotland could get something like the current share of a UK pot of money. In the conversations that I have had with civil servants—I am sorry if I keep coming back to those conversations—I detect a great sensitivity at both civil service and ministerial level to the basic division of funds between the four countries. There is a recognition that reallocating shares between the four countries of the UK would potentially invite a political backlash, not least from Scotland.

I recall what happened last time round, when we were plotting the allocations for 2014 to 2020. As John Bachtler has said, there was a thought that if we followed through the logic that was being deployed in Brussels, Scotland would get rather less money than it had before. I remember sitting across the table from Nicola Sturgeon—she had the brief at that time—who said, “We’re not having this.” She made that point to the Westminster ministers and they caved in.

The real changes in the underlying economic geography of the UK over the last few years have not been fundamental, so there is a case for suggesting that we roll forward the current division of funds between the four countries into whatever follows with the shared prosperity fund.

Beyond the allocation to the four countries, there is the issue of how to construct formulae that allocate sensibly within the countries. We have come up with something that works on that front, certainly in England. 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.

10:45

Gillian Martin: There are reasons why Scotland has been successful in getting European structural funding in some of the things that Linda Stewart mentioned, such as population disparity, islands, terrain and geography.

Professor Fothergill: Those things have brought a ring-fenced pot of money into the Highlands and Islands, which is a relatively small component of Scotland as a whole. Scotland as a whole would have received less in the present spending round had the Scottish Government not dug its heels in and said, “We are not wearing this”.

The approach of the Scottish Government was helpful to northern England, which did not want to see a divergence of funds to more prosperous areas in the south. We were able to build on the Scottish precedent and say that, if the principle was good enough for Scotland, it should be good enough for the north-east, north-west Yorkshire and so on. It was a huge step forward.

Professor Bachtler: In two weeks, the European Commission will be publishing its proposals for the formula for allocating structural funds in the period from 2021 onwards. If we are being optimistic, it will take the European Union at least 18 months or possibly two years to agree a set of indicators for allocating funding or determining the spatial eligibility of regions and what funding goes to them. There is an increasingly complex formula involving GDP, unemployment, employment, population density and other indicators. Potentially, it will include migration, innovation rates and so on.

There would be the same issue at UK level if the UK Government were to say that it wanted to develop a new indicator system for the allocation of funding, either at local level or between the nations of the UK. The most politically astute and productive approach would be to take the current structural funds allocation as the starting point and either continue that or have equivalent cuts—of 5 or 10 per cent, or whatever—across the board.

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. The principles might be that the funding had to target territorial inequality and take particular account of poverty, skills and innovation deficits and so on.

The issues to think about in Scotland are twofold. First, although funding and the allocation of funding are important, there is a higher-level question of why we want a regional policy and how important territorial equity is. We have not had that discussion since devolution, and we do not have a coherent regional policy as such. Secondly, the contrast between regional policy in Scotland and the wider UK and regional policy in other European countries is that our discussion tends to be primarily about economics, economic efficiency, productivity, innovation and competitiveness. The foundation stone for regional policy in many other European countries is about

social justice and the right for people to have equal opportunities to equivalent living standards, for example. In many cases, that is laid down constitutionally as an objective. We should be addressing the questions of how important territorial equity is in Scotland and of the relationship between the economic and the social, and how we want to translate that into practice.

There is a danger of thinking about funds and schemes—this is the classic UK Government approach—in the instruments rather than thinking more broadly about what it is that we want to achieve. Again, we should learn from our European counterparts in, say, the Nordic countries. Regional policy is not a scheme in the way that regional selective assistance is; it is a framework that a range of policies—on education, the environment, transport and industry—contribute to. On top of that, there are the institutional arrangements to do with how we want to co-ordinate the diverse mix of spatial initiatives that are evolving, such as city regions and regional partnerships.

Gillian Martin: If the framework comes to Scotland, it will be devolved to regions. That brings me on to the next issue that I want to ask about. You have been critical of the lack of flexibility. My region had a big economic shock when the oil price plummeted. Lots of people lost their jobs. All of a sudden, companies that had been doing very well for 40 years had no orders coming through their doors.

Do you think that there should be an element of responsiveness to economic shocks, which might be missing under the current structure? Could that be built into the framework if it resided here in Scotland?

Robin Smail: John Bachtler outlined thoroughly the sorts of qualities that a replacement fund should have. It is important that there should be a multiannual aspect to it. We should have multiannual finance for multiannual problems rather than just the annual funding round, as well as the partnership principle and so on.

It is interesting that the Local Government Association in England and the Convention of Scottish Local Authorities in Scotland have been saying that we have an opportunity to make things more flexible and that we do not have to follow exactly the ordered rules that currently exist for structural funds. We do not necessarily have to follow all the rules on N+3, although it might be a good idea to do so. We could even have a sub-fund that was dedicated to crisis situations. Such a fund exists in the EU. There is a lot of discussion about how well it is dovetailing with ESIF. A host of aspects could be designed, taking advantage of all the benefits of the existing framework but

making it more flexible and more targeted to address our specific needs.

Linda Stewart: I agree with that, and I echo a lot of what John Bachtler said about the way forward.

I am aware of time, but I would like to pick up on a couple of the specific points that Gillian Martin raised. She hit the nail on the head when she asked what we should measure and how we should do that. How we measure success and what the indicators should be for a future replacement for ESIF is a fundamental question. Once we have a measurement system in place, we can look at the formulae for how we allocate and prioritise funding.

It has been largely acknowledged, certainly in previous similar discussions in Scotland, that GDP is far too blunt an instrument to use and that we need to bring in other indicators. We also need to get to the heart of the regional policy questions that John Bachtler mentioned. What are we trying to do with regional policy? Are we trying to provide equity of opportunities or are we trying to do something else? Some of the city deals are doing excellent work in their own right, but that is quite distinct from how we have approached regional policy through ESIF in the past in Scotland.

I mentioned some of the issues to do with the Highlands and Islands and the dangers of losing territorial cohesion policy approaches that recognise regional disparities. A place-based approach will have to be part of the mix. We need to identify not just the challenges that we have at regional level, but the opportunities.

Partnership has to be fundamental to that. To pick up on the Aberdeen experience, if we look back to 2014, we see that what ESIF was doing to support the economy of Aberdeen and the north-east was completely different from where we are now, given the changes in the oil and gas sector. One of the opportunities that we have, looking forward, is to create an approach that can be more flexible and responsive to changing circumstances. Within that, however, we could include the many benefits of what we have had in the past, through a longer-term strategic six-to-seven-year programme, so that partners are able to plan ahead and look at what might happen in that timeframe. It must be place based, but let us not lose sight of the urgency of having some of those much more detailed discussions.

Time does not allow it, but when we are looking at ESIF we should also incorporate what is happening with fisheries and agriculture funds, because how that funding changes in the future will have a massive impact right across the whole of Scotland. The conversation needs to be quite broad, but we really need to get a move on with

addressing some of those serious issues, or we will have missed another opportunity.

Jamie Halcro Johnston (Highlands and Islands) (Con): I am glad that you brought up fisheries and agriculture, as I have come down from Orkney today and I serve the Highlands and Islands. There was mention of the Nordic examples, but I wondered whether there are other examples outwith the EU that we could look at to find models of regional policy that we could incorporate if we are creating a shared prosperity fund.

Professor Bachtler: Apart from Norway, which I have already mentioned in the Nordic context, there are some interesting developments in Switzerland, which has some similarities, in that there are areas that have sparse populations and there are remote Alpine valleys. The Swiss have been forging a new regional policy over the past eight years that draws on some EU experience, but is very much adapted to Swiss federalist circumstances.

Aspects of the debate that there has been in other countries include thinking more flexibly about space, how our economic and social development problems do not follow territorial boundaries, and thinking about what is known in the jargon as a place-based policy approach. That involves thinking about which territories are affected by particular challenges, which may cut across subregions and local authorities, and then designing a bottom-up approach to the policy responses, drawing on communities and local knowledge, while having top-down objectives.

That is a different way of thinking about geography and also about the kind of institutions that you need to respond to those issues. It is less top down, less prescriptive, and more flexible. That is where, without the constraints of European structural and investment funds and all the conditions and administrative obligations, we could think quite radically about how we might like to change. Switzerland is one of the countries that has tried to do that, and we can provide more information to the committee if you are interested in that.

Jamie Halcro Johnston: It would be interesting to find out how long it has taken to develop that, and whether it is an on-going process.

Professor Bachtler: It is very much an on-going process, because the cantons jealously protect their constitutional responsibilities. It certainly has not been easy; it has probably taken about eight years and it is still evolving.

Linda Stewart: Another interesting example is the work that we have been doing recently with other Highlands and Islands partners and with Canadian institutions. We face similar issues

around sparsity of population, island regions and so on. It is interesting that there are the same conversations and the same challenges, and there is so much benefit in having those conversations.

To bring us back to EU partners, much interesting work has been done on the issue of territorial co-operation through the Interreg programmes, particularly with some of the work that is going on just now with Irish partners, north and south of the border.

The Interreg programmes and what happens to them need to be part of our future planning. They have been hugely beneficial. Obviously, there are wider political issues with the cross-border programmes and the peace programme with Northern Ireland and the Republic of Ireland. On the ground, however, through the Interreg cross-border programme that the west of Scotland shares with those regions, some terrific cross-border co-operation goes on, so let us ensure that we do not lose that.

11:00

John Mason: I will build on some of the things that Gillian Martin, in particular, was looking at. I am looking at table 3 on page 7 of Professor Bachtler's paper, which shows how the money is split up around the UK. I am interested that the UK average is £172 per head, whereas Scotland gets an average of £169 per head, so we are below the UK average at the moment. Wales appears to be the big winner, with £788 per head, which is quite dramatic. I will tie that in with the Industrial Communities Alliance's suggestion that the south-east of England region might be arguing for more money. Is that argument based on that region's need having increased relatively, and therefore it wanting more money, or is it because that region gets only £33 per head and that does not seem like very much? Can Professor Bachtler also say anything about where the EU is going? If we adopted the EU proposals for the next four or five years, how would that affect the table and how the money is shared out?

Professor Bachtler: The table to which you refer is actually in euros rather than pounds, but your basic point applies. The allocation of funds is very much driven by the EU's methodology, which maximises the aid intensity in less developed regions. Wales has benefited from west Wales being a less developed region and south-west England has benefited from Cornwall being a less developed region. There are indicators such as the regional gap in GDP—the gap between GDP in the regions and the EU average—and there are premia relating to the number of unemployed people that come into play. I can provide a breakdown of the formula, but there are also caps, safety nets and ceilings that have an influence on

the allocation to the UK, based on regional situation.

John Mason: Do you agree with Professor Fothergill's point that, no matter what happens, that kind of split will not be replicated?

Professor Bachtler: It will not be replicated at this level. If we look at table 7 on page 11 of the same paper, we can see the way that changes in GDP per head would potentially impact on the eligibility of different regions. For example, under the current system, the Highlands and Islands would no longer be a transition region but a more developed region, but south-west Scotland would become a transition region. That is very much an academic exercise, but, using the same indicators, we would not have the same map that we would have had from 2014.

We have the European Commission's proposals on the amount of funding—particularly of structural funds—that will be allocated to cohesion policy for the next period. On average, there will be a cut of between 6 and 7 per cent, depending on how we calculate it, and the likelihood is that there will be a requirement for member states, particularly the richer countries, to co-finance more of their share of the funding. That is the global budget that goes towards the policy.

However, we do not know the allocation formula. We have been told that, although GDP will remain a significant factor, there will be new indicators, relating potentially to migration, that have been designed particularly to benefit countries that receive a lot of migrants, such as Germany, and to penalise countries that do not, such as those in central and eastern Europe. The new indicators will also focus more on some of the broader EU policy objectives, including innovation and climate change.

Again, that would benefit the south and the east, in general terms. Particularly because southern Europe did badly in the settlement of 2013, relative to its problem of unemployment, it is likely that there will be a certain shift in funding towards the southern member states. The question is what will happen to the more developed countries. At the moment, the thinking is that they will still be part of the policy but that they may face cuts of up to a third.

John Mason: I accept that that is not definite and that things are moving forward.

Professor Bachtler: At the moment in Brussels there is a bit of a bazaar, trading information that we will not know definitely until the formula comes out.

John Mason: Okay, that is great. Perhaps Professor Fothergill would also like to respond.

Professor Fothergill: We are leaving the EU. In its planning of the new shared prosperity fund, I cannot see the Westminster Government trying to replicate what would have happened if we had voted to stay in the EU. On issues such as what the fund is spent on and how it is allocated across the UK, the UK Government will not be driven by decisions that are taken in Brussels. Of course, people in the UK regions may look over to Brussels and say, "Well, that is happening there. Why is it not happening here?" I am not sure that that argument would necessarily cut too much ice, however.

John Mason said earlier that I was arguing that the present division of funds would not happen again. I was actually saying that it would be very difficult—if not nigh-on impossible—to try to recreate that division of funds by using statistics. That is very different from saying that such a division of funds could not happen again, because that is fundamentally a political decision.

John Mason: Presumably, you accept that the UK Government will come up with a system that measures things and so, on that basis, that division will not happen again? Would it happen again only if the UK Government does not come up with such a system?

Professor Fothergill: There will be two levels to this. There will be a high-level political decision about the carve-up among the four countries of the UK, which, at the end of the day, will not be driven by numbers. Then, certainly in England—I cannot speak for Scotland—the UK Government is likely to come up with a system for targeting such funds at the areas that it wants to support and that, historically, have been the weaker local economies. Presumably, the Scottish Government will then have quite a lot of leeway, within broad UK guidelines, to design its own internal allocation formula.

Gordon MacDonald (Edinburgh Pentlands) (SNP): This morning, we have talked about the amount of bureaucracy that is involved in EU funding. Last week, there was a call to simplify the management of funds and so on. Given that there is very little detail regarding the UK shared prosperity fund—on which we hope to have the opportunity of influencing UK Government thinking—how do we get the right balance between the funding having maximum impact on the ground and ensuring that there will be accountability?

Linda Stewart: Our big challenge is to work on getting that balance absolutely right. Earlier, we discussed the opportunities for simplification and how good it would be to look at that in a new programme, of whatever nature that might be. We were promised that the system would be simplified in the current programmes and, to an extent, new,

simplified options such as unit cost models were brought in. However, by and large, very little was discarded. There is still the same level of having to evidence activities, and the complexities and uncertainties around what is eligible and around compliance, so the system has ended up being even more complicated. There needs to be a degree of being ambitious and perhaps taking the opportunity of acknowledging that this is public money and that of course the system must be accountable and transparent, but that we have lots of very good systems in place across Scotland in any case.

Look at my sector of education and innovation. We fund students—at whatever the level, be it further or higher education—and we have good methods for making sure that a student is eligible for that funding and that the money goes to that student. Why are we trying to add extra layers of bureaucracy on top of that when we do not need to? Once we have decided what the indicators are, if extra information needs to be captured, that should be done within the existing systems, instead of trying to build something else on. Looking at that is a big opportunity, but 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.

Robin Smail: As Linda Stewart says, simplification has tended to mean more work for the member states. It has been simplification for the European Commission, which is perhaps normal because it is streamlining itself.

There are a number of features of the system that we may want to let go of. As I have mentioned, there are the audit requirements. We will probably just follow UK audit standards and procedures, rather than follow the EU's set-up.

On financial control, most EU countries have found the process of management verification—that is, checking all the expenditure of projects that is submitted to authorities—to be a huge burden. The process may be simplified if we understand that the audit results in the UK and Scotland are satisfactory.

The automatic decommitment rule may be common sense—you may want to continue with it. According to the EU, a lot of member states are guilty of gold plating—that is, adding their own eligibility of expenditure rules on top of the EU's eligibility of expenditure rules. Clearly, the UK and Scotland will have their own eligibility of expenditure rules anyway.

Public procurement procedures are one of the greatest sources of error in EU programme expenditure. We will no doubt continue with the

existing legislation in that field; I imagine that we will do the same for state aid, too. We will perhaps devise our own rules on revenue-generating projects, which, again, have been a source of error and challenge across the EU.

How you achieve impact, which is the other side of the coin, is about identifying your priorities in the strategy and those areas where you can—and where you have an opportunity—to generate new wealth. I have referred to areas that we perhaps need to focus on more than we have done in the past, such as making greater efforts to expand the company base and to encourage and support start-ups. According to a recent Post Office survey, Scotland leads the UK in start-up survival rates after five years. We have very fine delivery mechanisms in that field.

The other way to check whether one is achieving impact would be to devise our own system of monitoring, which could be similar to, but not the same as that used in current programmes. We are good at devising indicators, monitoring them and checking whether we are achieving certain results. We are good at evaluating the impact of our policies, and we should continue to do that.

Gordon MacDonald: You say that the UK and Scotland are good at administering the various schemes and projects—

Robin Smail: Some of them are good.

Gordon MacDonald: Are there any countries that we can learn from if we want to cut bureaucracy?

11:15

Professor Bachtler: A lot of the problems with EU funding arise from the fact that every country has its domestic system for economic development, and then there is the EU system, so there are parallel circuits of administrative practices and rules that somehow have to work together. With the removal of the EU regulatory requirements, the default is what we are doing anyway. In areas such as financial management and control and audit, in terms of monitoring, evaluation, communication and performance management, we have systems in place. As Robin Smail said, with aspects of state aid and public procurement, we will most likely have to continue to follow the EU regulatory framework. It is not a question of having to reinvent anything; it is a question of considering which bits in our domestic system—which is functioning perhaps not perfectly but reasonably well—we want to enhance by taking selective elements of the EU system.

Gordon MacDonald: I will make this next question my final one, given our time constraints.

What one thing would you change in regional economic policy to make it more effective? Would you focus on certain sectors or geographical areas?

Professor Fothergill: I would shift the emphasis a little more towards direct support to businesses. For much of the long history of UK regional policy, and certainly in the days when I first engaged with it, regional policy in essence meant giving financial support to companies to encourage them to invest to create jobs and to expand. Once upon a time, the UK Government put serious money into that work. Scotland still puts some money into it, through regional selective assistance, but it is on nothing like the scale that we used to have. In fairness, we are constrained by EU state-aid rules, and there is a huge question mark about the extent to which we will remain constrained by those rules even once we have left the European Union—that is an issue for negotiation with Brussels.

However, it has always seemed to me that the most direct way to try to create jobs, increase output and raise productivity, particularly in less prosperous areas, is to have direct financial support to companies. If there was one shift that I would like, it would be a shift from the rather contextual investments that we largely have at present, which are core funded by the European Union with the aim of improving the wider environment for business and employees, to more direct targeting of job-creating and output-increasing investment.

Robin Smail: I have already mentioned a couple of things. You asked for one more, which is difficult, but I would say foreign direct investment. If you were to ask me the three quickest ways of growing the economy, I would say that they would be new money through foreign direct investment, export-led sectors and tourism. I know that tourism is not very popular among European Union officials just now, but it would be the third.

To add a slight angle to what Steve Fothergill said, there has been a shift in the EU away from handing over grants towards giving loans to businesses. When Juncker became the European Commission president, he came up with his Juncker plan, which was designed to address the investment deficit across much of Europe after the financial crisis.

There is a special fund—the European fund for strategic investment—which is proving to be quite successful. The public sector provides a guarantee to relatively risky major investment projects. It encourages the provision of subordinated debt to projects from other public sector bodies, which in turn leads to senior tranches of investment from the private sector. It is so successful that it scares DG Regio, because it

thinks that this is a return to projects being approved directly by Brussels rather than member state programmes.

As the pot becomes smaller, there will be a shift away from grants to businesses towards loans and repayable assistance.

Linda Stewart: I would look for more of a place-based strategy across the whole of Scotland, taking into account the regional disparities and the arguments and issues that we have had to deal with in the Highlands and Islands, then looking at how that translates across the whole of Scotland with a much more positive slant. Instead of just saying, “Poor us. We’ve got a difficult economy”, we should be asking how we can make the most of what potential there is in the lines of the smart specialisation strategies that we have seen adapted to regional circumstances. We need to make sure that we can contribute to our regional growth and to national growth. That means building up capacity so that we can participate and contribute to some of the good examples that my colleagues have just mentioned.

The Convener: We will have a final follow-up question from Dean Lockhart, and Professor Bachtler can then come back in on the points that have just been raised.

Dean Lockhart (Mid Scotland and Fife) (Con): I have a question that cuts across a number of the points that have been discussed today about targeted funding and strategic direction, and increasing partnership working. There has been a review of the enterprise agencies with the setting up of the strategic board for enterprise and skills. How do you see the role of the enterprise agencies going forward and what can they do with the issues that I have highlighted?

Professor Bachtler: I am probably not the best person to ask about the enterprise agencies, but what interests me about the review is the regionalisation or the return to a more sub-regional, local approach. We have become too centralised in our domestic policies over time.

That links with what I said before. If we are to give meaning to what Linda Stewart was talking about when she referred to a place-based policy approach, policy across the board needs to be more responsive to local needs and development challenges. We also need to tap into the potential of community developments, and that links with what I was going to say would be my one recommendation.

If we compare Scotland with other European countries rather than EU member states, what is missing is a local or community dimension to economic development. What we call community planning partnerships, for example, are no such thing; they are not community—in many other

countries, they would be called sub-regional. We are failing to exploit the potential of community development.

The Community Empowerment (Scotland) Act 2015 could take us in some interesting directions, as could the agreement with COSLA to devolve 1 per cent to communities. I am in favour of accelerating that process considerably, with the enterprise agencies being very much engaged in it.

Linda Stewart: I agree strongly with Professor Bachtler. There is a further good opportunity with what is happening with the new strategic board by aligning more closely what is happening with skills and innovation, with the inclusion of the Scottish funding council. That gives us a good starting point for a lot of the regional strategies that we might want to think about; it is good context setting. We also need to bring in the community element that John Bachtler talked about. That has been a key feature of HIE since the establishment of the Highlands and Islands Development Board in 1964 and has proved to be really important.

In the Highlands and Islands we tried hard to bring that element in more closely to the 2007 to 2013 programme through the distinct involvement of community planning partnerships. That worked to an extent but, having looked at the possibilities of the integrated territorial investment that John Bachtler mentioned earlier, it was deemed not to be appropriate. There could have been a lot of benefits in such an approach and it would be worth investigating further as we move forward.

The Convener: I thank all our witnesses for coming today.

11:25

Meeting continued in private until 12:10.

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