OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 20 January 2021

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 20 January 2021

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FINANCE AND CONSTITUTION COMMITTEE
2nd Meeting 2021, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP)
*Tom Arthur (Renfrewshire South) (SNP)
Jackie Baillie (Dumbarton) (Lab)
*Alexander Burnett (Aberdeenshire West) (Con)
*Patrick Harvie (Glasgow) (Green)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Fulton MacGregor (Coatbridge and Chryston) (SNP)
*John Mason (Glasgow Shettleston) (SNP)
*Anas Sarwar (Glasgow) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (Scottish Government European Structural and Investment Funds Replacement Consultation Steering Group)
Ivan McKee (Minister for Trade, Innovation and Public Finance)
Hilary Pearce (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Virtual Meeting

Scottish Parliament

Finance and Constitution Committee

Wednesday 20 January 2021

[The Convener opened the meeting at 10:00]

Replacement of European Union Structural Funds

The Convener (Bruce Crawford): Good morning and welcome to the second meeting in 2021 of the Finance and Constitution Committee. We have received apologies from Jackie Baillie and Alasdair Allan.

This morning, we will take evidence from Ivan McKee, Minister for Trade, Innovation and Public Finance, on the replacement of European Union structural funds. His evidence will form part of our scrutiny of the budget for 2021-22. We also invited the United Kingdom Government to provide evidence, but that invitation was declined. That is a bit disappointing, particularly as it was confirmed just last Friday that there is more information about its proposals for a UK shared prosperity fund. It would have been very helpful to have taken evidence on that information today.

Mr McKee is joined by Scottish Government officials Hilary Pearce and Karen McAvenue, and by Professor David Bell, who is chair of the Scottish Government's European structural and investment funds replacement consultation steering group. I welcome our witnesses to the meeting and I invite the minister, Ivan McKee, to make a short opening statement.

The Minister for Trade, Innovation and Public Finance (Ivan McKee): Thank you very much, convener, for inviting Professor Bell and me to the committee to update you on the replacement of EU structural funds in Scotland, the recently published Scotland position paper and the UK shared prosperity fund.

As you have just mentioned, we learned over the weekend that the UK Government intends to deliver the shared prosperity fund throughout the United Kingdom on its own. That is hugely disappointing and, to be frank, it shows no respect for devolution. It shows no consideration for the distinct needs of people and places in Scotland, with none of the promised ministerial engagement and no consultation with people or stakeholders in Scotland.

Instead, the UK Government plans to operate on a UK-wide basis, using the new financial assistance powers that were created through the United Kingdom Internal Market Act 2020. What we warned of in relation to that act has come to pass with alarming speed. It is possible that much of the fund will be delivered by the Department for Work and Pensions and the Ministry of Housing, Communities and Local Government—a ministry that, according to the Treasury's latest statement of funding policy, has no locus at all in Scotland.

To be frank, that is a power grab that disrespects the needs and interests of Scotland and the Scottish Government's powers and responsibilities, and it ignores the fact that we have successfully delivered the previous EU structural funds since devolution—in partnership with local authorities, other agencies and third sector bodies—making a huge difference to communities and individuals across the country.

I am sure that the committee will want to know more of the detail of the UK's proposed approach. Frankly, so do I. I have been asking the UK Government for clarity on the shared prosperity fund for more than two years. I have written to lead UK ministers more than 10 times in the past year alone, requesting meetings and information. I managed to speak directly to a UK Government minister for the first time only in late November last year.

However, that does not mean that we have not got on with trying to plan for the future. Professor Bell will shortly outline what has been done to Scotland's plans through the excellent work of the steering group that he co-chaired. It is important to recognise that those plans are based on robust evidence and a full public consultation and that they enjoy strong support from stakeholders. I assure the committee that the plans were influenced and informed by the report that the committee published in October 2019, and I thank you for that.

Our proposals aim to address and reduce economic and social disparities within and between places and people in Scotland, and they have four key themes at their heart: improving and empowering places, reducing poverty, increasing skills and growing businesses and jobs. That is all underpinned by our commitments to wellbeing and net zero carbon.

Our plans decentralise control of funding, empowering communities and ensuring that the money and authority for spending go to the people and places that need it most. Our monitoring and evaluation framework, which is aligned with the national performance framework, is focused on outcomes and outputs, ensuring that public finances are utilised in ways that produce the best yield for regions and communities.

What do we know about the UK Government's plans, by contrast? From April 2021, the UK Government plans to deliver a 12-month pan-UK interim fund of approximately £228 million, but there is no clarity on how it will be disbursed across the UK. UK officials advise that a prospectus outlining the aims and objectives of the fund will be published in March. To date, we have had no involvement in designing the fund.

Thereafter, a five-year shared prosperity fund will be delivered, but we have little clarity as to what that fund will look like. The quantum is suggested to be £1.5 billion per annum across the UK, but uncertainty remains around how much Scotland will get, who will benefit and how the money will be allocated and disbursed. That contrasts with the average of £183 million per year across a seven-year programme that is required to replicate the EU structural funds and the European territorial co-operation and LEADER programme funding that Scotland will no longer receive due to Brexit.

I have repeatedly made it clear that I and Scottish Government officials stand ready to work on a pan-UK basis on those future plans, but those offers have unfortunately been ignored. Despite Scotland's long history of successfully delivering EU structural fund programmes, the quality of our consultation, the published plan and the hard work that has been undertaken in Scotland to date, the UK Government is intent on ignoring the devolution settlement, setting aside years of experience and forging ahead with its own as yet largely unknown agenda.

That is all so unnecessary. Funding of this nature should be decided by Scotland in Scotland, and not by a remote Whitehall department with no understanding of our people, culture and needs. It is not because we can; it is because that will work best for Scotland's interests. We will continue to press for full Scottish Government control so as to ensure the optimum policy and funding settlement for Scotland. I am sure that you will agree that the situation is far from optimal. My concern is that the people, projects and communities that need the funding most and have the most to gain from it will lose out.

The Convener: You mentioned Professor Bell. I assume that you are expecting him to lay things out in answers to questions, rather than him making an opening statement.

Ivan McKee: I believe that Professor Bell has an opening statement.

The Convener: In that case, will you make it as short as you can, David? I was not expecting that, but these things happen.

Professor David Bell (Scottish Government European Structural and Investment Funds Replacement Consultation Steering Group): I will try to be as brief as possible. The Scottish Government asked me to chair the ESIF replacement steering group in August 2019. The group that we established comprised academics and representatives of development agencies, local government, the voluntary sector and the Scottish Government. All the people in the group had been involved with or had researched European structural funds in Scotland.

The proposal to establish the shared prosperity fund was announced by Mrs May in the 2017 Conservative manifesto. As Mr McKee said, final details of the fund are yet to be announced. The entire work of the ESIF replacement steering group was therefore carried out without any knowledge of UK Government thinking on the design of the fund.

The steering group operated cohesively and was guided by key principles, which included the efficient and transparent use of public funds, fairness in the allocation of those funds based on relative need, and coherence with other Scottish Government strategic priorities, such as inclusive growth.

The group carried out extensive consultations with interested parties in Scotland during the latter part of 2019. It then subdivided its work across a number of thematic groups covering funding and allocation, policy alignment, governance and delivery, and monitoring and evaluation. As Mr McKee said, those themes were taken up in a final report that was published last November.

Among our most important recommendations are that funds should be used to reduce economic and social disparities between places and people and that decisions should be taken as close as possible to those who would be impacted. While the Scottish Government would be the strategic lead, regional partnerships would be the main bodies that were charged with developing and funding programmes. As with the ESIF, the programme would be multi-annual, as local authorities and other bodies need predictability in order to maximise the strategic use of funding.

National agencies such as Skills Development Scotland would continue to have a role under the SPF. There would be streamlined administration, and systematic monitoring and robust evaluation would be part of the design to ensure public and political accountability. A basket of weighted indicators would be used to assess relative need, and communities and citizens would have a role in influencing regional partnership plans and allocations.

The steering group felt that those proposals were consistent with its principles and would therefore constitute an efficient, fair and transparent means of allocating public funding to reduce inequalities between people and places across Scotland.

I will make a final historical/practical point. My co-chair, John Bachtler, who co-chaired the steering group and has long been a student of European funding in Scotland, wrote in a paper in 2007, for which I can give you the citation:

> "The Scottish Office (1994-1999) and subsequently the Scottish Executive had overall management responsibility and accountability for EU funding in Scotland; in the 2000-06 period, the Executive was referred to as the 'Managing Authority' by the EU."

In fact, therefore, management of the European structural funds in Scotland lay with the Scottish authority prior to devolution.

A further practical point is that 67 posts in the Scottish Government are currently devoted to dealing with the administration of EU grants, but there is no clarity yet about how the practical issues of grant administration will be dealt with. Expertise in such administration has been built up in Scotland over a long period that extends back to before the creation of the Scottish Parliament. I am not clear how that can be replaced with equivalent expertise in, for example, the Ministry of Housing, Communities and Local Government and/or the Department for Work and Pensions in a timely and efficient manner.

The Convener: Thank you.

Minister, in our report on the replacement of EU structural funds, the committee agreed unanimously that the decision-making powers that the Scottish Government exercised under the EU structural funds should not be reduced under the UK shared prosperity fund. We also agreed that the Scottish Government's flexibility to distribute the funding according to its priorities should be no less than existed under the EU structural funds. The committee has had no response from the UK Government to those recommendations, which you have confirmed this morning that the Scottish Government agrees with.

I know that they have been limited, but what information and further detail can you provide us with on any discussions that you have had with the UK Government in seeking to deliver that approach, given that the UK Government has, in effect, ignored the committee's unanimous views?

Ivan McKee: That is a great question, convener. You are right that the committee's views have been ignored and the engagement between us and the UK Government has been very limited. As I said, it was only in November last year that I managed to get a meeting with a UK Government minister. That was with a minister at the Scotland Office who, to be frank—I will be fairly blunt about this—knew less than I did about what was going on and was unable to provide answers on any of the points that we raised, other than referring to having to get answers from other UK Government departments.

The process has been hugely disconnected on the UK Government side and it has been apparent throughout it that many departments do not know what is going to happen or where this is going. The fact that the committee asked for a UK Government minister to come and give evidence this morning but they declined to do so speaks to my point as well.

The process also runs counter to some of the statements that the UK Government has made in public. In 2019, for example, James Brokenshire, the then Secretary of State for Housing, Communities and Local Government, said that the UK Government would

> "of course respect the devolution settlements in Scotland, Wales and Northern Ireland, and ... engage with the devolved Administrations to ensure the fund works for all places across the UK."

Paul Scully, Parliamentary Under Secretary of State in the Department for Business, Energy and Industrial Strategy, noted in December 2020 that the UK Government had

> "confirmed that the devolved Administrations will be represented on the UK SPF governance structures."

However, we have seen none of that and, as I said, there has been limited engagement and even less information coming forward.

10:15

The Convener: I have a quick follow-up question on that issue. In responding to the committee's report on the United Kingdom Internal Market Bill, the UK Government said that it would "take a collaborative approach" with the devolved Governments to delivering the bill's financial assistance powers—obviously, that includes the UK's shared prosperity fund—and it confirmed its position last Friday. Based on your experience, how successful do you think any collaborative approach by the UK Government from here on might be?

Ivan McKee: We have worked hard, and David Bell and his team have worked very hard, to put together proposals on how the fund would work in Scotland, and we stand ready to engage and have discussions with the UK Government. The fault is on the UK Government's side for not being willing to engage. We are not seeing any evidence at all of any desire to collaborate, which is hugely disappointing.

We are very clear on how the fund can work effectively. Professor Bell has given the history, and there is a long history of the programmes being delivered through the appropriate channels in Scotland, which even pre-dates devolution. It is very important that that experience and history are not lost, because managing the programmes requires an understanding of what is happening on the ground. There is a lot of history and expertise on what to do and what not to do to make the programmes effective, but there is a real risk that all of that will be lost.

The Convener: When we undertook our inquiry into the replacement of structural funds in 2019, a key concern of the committee and of those whom we met was the funding gaps between the end of the structural funds and the start of the UK shared prosperity fund, which, as we said in our report,

“could result in loss of knowledge, skills and experience, and capacity to deliver future programmes”.

We do not currently know how the UK shared prosperity fund will operate, and we will not know that until late 2021, when the UK Government will confirm the profiles for that fund in the next spending review.

Does either of you know what the impact of the loss of that knowledge, skills, experience and capacity would be? Perhaps Professor Bell can comment in particular on the most effective and efficient way to deliver such programmes.

Ivan McKee: I will answer first and I would then be very happy to hear from Professor Bell. The best way to deliver the programmes is to do what we have done up until now. The funds from the EU came to the Scottish Government, which was the managing authority, and the Scottish Government then worked very closely with lead partners and delivery agents to deliver the programmes in the most effective and efficient way in order to get the maximum benefit to people and communities throughout Scotland.

Building on that work, the position paper that the Scottish Government produced in November gives a lot more clarity and depth on how we would plan to do that in the new environment in which we find ourselves. Unfortunately, it looks as if Scotland will have much less control over the funds under the UK scheme than we had under the EU scheme, which is hugely disappointing.

You mentioned the funding gaps. We found out in the spending review at the end of 2020 what those look like. It was indicated that there will be a £220 million fund to cover the whole of the UK from April this year for the 12 months until the full shared prosperity fund kicks in, so it is clear that there is a risk of a gap.

As you said, there are huge amounts of skills and knowledge in the hundreds of organisations that are on the front line delivering programmes throughout Scotland, but there is great uncertainty for them about what will happen next. As you also said, there is a very real risk that the skills, knowledge and experience of what is important to communities and how best to deliver funds to them will be lost.

The Convener: Professor Bell, maybe you could tell us in your response about the potential impact on jobs in Scotland.

Professor Bell: In relation to principles around funding, I go back to the economist Wallace Oates, who started the study of what is known as fiscal federalism. He argued that it is always better to drive down decisions about funding to as low as level as possible, which is also implicit in the EU’s subsidiarity principle. The group very much took that on board in its work. That has to be balanced to some extent by consideration of the capacity of communities and groups that represent small areas to deliver appropriate applications and to monitor and evaluate the funds.

That is how we ended up with the decision to have regional partnerships, rather than the Scottish Government, as the driving force behind the way that funding would go forward in the future. The group felt that a balance could be struck between getting decisions about funding as close as possible to the people while having accountability, capacity and the ability to evaluate funding.

There will be a loss of human capital and skills, but I have not worked out an estimate of the jobs lost. I have seen very small organisations working on the ground with relatively small amounts of money. Many of them are in the voluntary sector, but they do great work to improve the employability of young people and enhance skills, as well as doing the more high-profile stuff around improving the environment, infrastructure and so on. Many organisations in Scotland that have done very good work will be wondering how on earth they are going to bridge the gap, if it has to be bridged, until the new funding scheme is designed and delivered. That could cause a considerable loss of capacity to deliver on key objectives such as narrowing the gaps between people and between places.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. I would like to understand more about the Scottish Government’s published shared prosperity fund plans. My understanding, in very broad terms, of how the EU structural funds operate is that they are grants of EU money that are paid out to member states and regions under very strict criteria.

There is a great deal of complexity in relation to the payment of those funds. Indeed, in the past, the minister has, rightly, expressed concern about the level of bureaucracy and complexity involved in administering the funds, which are subject to very strict audit requirements. In the recent past, Scotland has fallen foul of those and funds have been withheld because Scotland has not properly accounted for the money that has been spent. Given that the proposed UK shared prosperity fund will replace that EU funding, what on-going role do you see for the UK Government in setting the criteria for how it is spent in Scotland and for the audit requirements that would need to apply?

Ivan McKee: That is an open question in relation to the audit requirements. We would be very willing to discuss that with the UK Government and to work through an audit process that gets the right balance between having control of the money and ensuring that it is used in a correct and effective way and not being too bureaucratic. That is an important issue, which I have raised before. The group addressed that and there are comments on the proposal in the position paper. We would be happy to work with the UK Government to understand how it would like the money to be accounted for.

You recognised that there have been issues about the suspension. That has been part of the entire EU process. Gibraltar is the only part of the UK that has not seen some funds suspended as a consequence of EU audit rules during the past couple of cycles. It has happened across the UK, not only in Scotland.

It is important to get the balance right and to ensure that there is control over the money that is spent, but that that involves as little bureaucracy as possible. The plans that we have set out in the position paper fulfil that requirement.

Murdo Fraser: You answered the part of my question that was about audit requirements but I do not think that you answered the first part. Given that the EU currently sets quite strict criteria for how those funds can be spent, would you expect the UK Government to do the same? Would that not be reasonable, given that UK Government money is being spent in Scotland?

Ivan McKee: The position paper addresses the role of the UK Government, which will have an overview of the kinds of themes that it wants the money to be spent on.

Once that comes down to the next level, it is important that that is aligned with the national performance framework and the Scottish Government's policy objectives. If we do not do that, we will end up with confusion and more bureaucracy at the delivery end. We would have local authorities and delivery agents trying to match up criteria that come from the Scottish Government and other funding streams, in alignment with the national performance framework, with a different set of criteria that would come from the UK Government.

We are happy to have a discussion with the UK Government and to understand its direction. One of its aims is an increase in productivity. Another is what is called the levelling-up agenda. That translates into our inclusive growth agenda and our desire for all parts of Scotland to be included, particularly through support to the more challenged communities.

At the top level, there is broad alignment on where we are trying to get to. The mechanisms through which that might happen are different: the UK Government has themes that are different to those that have been operating in Scotland. It is important for funding to be funnelled through the Scottish Government so that delivery agents on the ground have clarity about the themes and how the use of funding will be measured.

That message came through loud and clear. If you look at what councils and the Convention of Scottish Local Authorities have said, there is clarity. They are keen for this to be done through a mechanism that recognises the Scottish policy landscape and what is already happening here, and want there to be alignment with those to avoid any lack of clarity or any additional bureaucracy.

Murdo Fraser: I am looking for some precision here. The briefing paper, which refers to the Scottish Government's plans for the Scottish shared prosperity fund, says:

> "Scotland will have the freedom to allocate funding to the places and priorities that the Scottish Government chooses and which align with Scottish Government policy aims and objectives."

It goes on to say:

> "The plan proposes that a transparent, needs-based regional allocation model will be developed by the Scottish Government which need not align with the allocation model(s) used in other parts of the UK."

You spoke earlier about the need for a collaborative approach. The briefing paper reads as if you want just to be given the money to spend in any way that you like.

Ivan McKee: Are you finished?

Murdo Fraser: Is that an unfair characterisation?

Ivan McKee: It absolutely is. What I said, and what the paper says, is that we recognise that the UK Government has policy objectives and that we are comfortable about engagement. We mention the role of the UK Government in our paper. We want to make sure that we understand its policy objectives and what the money is meant to deliver. The process would then be for us to deliver that by using mechanisms in Scotland. The allocation mechanism and audit process would therefore be in Scotland. As I said, we are comfortable about having discussions with the UK Government about what that audit process would look like.

10:30

I have mentioned some of the UK Government's policy objectives. For example, it has the desire to increase productivity and to—as it calls it—"level up" across parts of the UK. We are very comfortable to have discussions with it on how its policy objectives would translate into on-the-ground activity in Scotland in order for us to make sure that there is alignment between that and our national performance framework. It is about making sure that the delivery mechanism on the ground has one point of reference and is not having to face in two directions at once, creating confusion and additional bureaucracy.

The money would be allocated through a needs-based system for Scotland that we have started to develop through the work of David Bell's group. I have articulated how we would see the policy alignment working and—as I said—I think that the audit process could work fairly well if we sit down and discuss it with the UK Government. The problem is not any of those issues, but the UK Government's unwillingness to sit down and talk about this.

Murdo Fraser: I have one more question around the aspect of funding. Historically, Scotland has done well out of EU structural funds, in that we have had more than our population share within the UK. Does the minister agree that it is important that that continues? The UK Government has already indicated that that is the direction that it wants to go in. We do not want these funds being Barnettised and rolled into the Scottish block grant.

Ivan McKee: If Murdo Fraser has an indication that the UK Government has said that we will get more than our population share of the funds, I would be interested to see that; I am not sure that I have seen that. However, as I have also pointed out, the UK Government has said lots of things in the past that have not come to pass.

In relation to the numbers themselves, the calculation that we have done says that, over the seven-year period, Scotland would be due an average of £183 million per year. That is an open calculation that we are very happy to share with the committee. That is the number that we believe that Scotland would be due based on what has happened in the past with EU programmes.

In relation to how that sits with a fund that the UK Government fund proposes to ramp up to £1.5 billion, there is clearly the potential for a disconnect in terms of the quantum of those funds. We will wait and see how the allocation works. If it can match the £183 million, that at least clarifies that part of it, although it still leaves many challenges in relation to alignment and delivery mechanisms. However, let us see what those numbers look like as they come forward from the UK Government.

Anas Sarwar (Glasgow) (Lab): This follows on from the response that Mr McKee gave to Mr Fraser. I understand the point about a lack of ministerial engagement, which is completely unacceptable. We, of course, want good engagement from ministers in both the Scottish and UK Governments. However, is there also a problem in terms of civil service engagement? Are there good levels of communication and engagement between the UK Government civil service and the Scottish Government civil service, with this being more a problem on the political level, or is it also a systemic issue between both sets of civil services?

Ivan McKee: The issue extends to the civil service as well. Clearly, civil servants do their job and, where they have the ability to do so, will communicate information that they have. However, it has been clear to our civil servants right through this whole process—going back two years and more—that information has not been coming forward. Frankly, UK Government civil servants have not known the answers to what has been going on.

There have also been disconnects between different UK Government departments. Bizarrely, we found ourselves in situations where we might have had an indication from one UK Government department of something that another UK Government department did not know about. I therefore think that there has been disconnect within the UK Government, which has flowed all the way through to a real lack of information coming to us.

We have provided a lot of information around the process that we have taken, our needs, requirements and aspirations, and how we could see the process working, but it has been very much a one-way street. Unfortunately, there has been very little coming back in the other direction either at ministerial or official level.

Anas Sarwar: I have one further question, with the convener's permission. Do you put the lack of engagement down to a disconnect at ministerial level in UK Government department decision making, which leads to the UK civil service not being given clear direction, rather than the UK civil service being obstructive? Is there a disconnect at ministerial level, or is there a systemic issue in the UK?

Ivan McKee: It is hard to know what is going on behind the curtain. All that we know is what we see. As I said, civil servants act on the instructions of their ministers. Clearly, if civil servants do not know the information, it is difficult for them to communicate it. I suspect that the issue is the lack of time that was taken to work through the detail, perhaps because it was not seen as a priority, but I do not know. Parts of the UK Government might have been waiting for others to make decisions. To be frank, I do not know in detail how the UK Government has ended up where it has.

Anas Sarwar: I saw one of your colleagues nodding, but I am not sure whether they were nodding in agreement. I might pick up that issue later.

The Convener: Given that I could not see who was nodding because, unlike you, I could not see people's faces, I will not try to bring them in.

John Mason (Glasgow Shettleston) (SNP): My questions refer mainly to Steve Barclay's letter of 15 January, and particularly to paragraphs 13 to 15. In relation to both the levelling-up fund and the UK shared prosperity fund, he talks about a "prospectus", which I thought was an interesting word to use. On the levelling-up fund, he says:

"We expect to publish a prospectus soon."

On the shared prosperity fund, he says that the UK Government

"will provide detail ... in a prospectus soon."

Do we have any idea what will be in those prospectuses? Will there be a lot of detail, or are we expecting something fairly general? I have seen pretty vague prospectuses, to say the least, during my life. Do we know the date on which the prospectuses will be published?

Ivan McKee: You are right. Based on the history of the past two years, which has involved cancelled meetings, a lack of information and clarity and, in many cases, various UK Government departments not knowing what was going on, I do not want to hazard a guess as to what we will see and when.

We think that something will come out in March to give some indication, but I do not know what that will look like. Even if that were to be the case, which would be the best-case scenario, applicants who wanted to apply for money from the £220 million fund from April would be in a very challenging position. We do not know whether the money will be allocated on a needs basis across the UK, or whether it will be allocated through competition between different applicants. We do not know how the Government will take recognition of different factors.

We are waiting to see what will be provided. Originally, we were told that we would get something at the end of January, but the date has been pushed back to March. That reflects the lack of clarity from all levels of the UK Government about what is going on.

John Mason: You talk about whether funding will be allocated on a needs basis—in his letter, Steve Barclay talks about "places most in need"—or whether there will be competition. I have a lot of need in my constituency, but need is, to some extent, a subjective issue. If the UK Government were to decide that the greatest need was in Manchester, Wales and Northern Ireland, is it possible that Scotland would get none of the money? Is there any guarantee that we will get a certain amount, or anything?

Ivan McKee: We have certainly not been told how much we will get. On the dramatic scenario that you describe in your question, I suppose that, in theory, it is possible that we could get nothing, but I suspect that that is unlikely. Given that we have a complete lack of clarity on how the UK Government wants to allocate the money—never mind how it will channel the money through to the front line, how it will monitor funding and what criteria will be used—it is, to be frank, very difficult to see exactly where the UK Government will go.

John Mason: In paragraph 15, Mr Barclay says:

"We will work closely with the Scottish Government".

However, from what I have picked up, the UK Government does not seem to have been working terribly closely with you up until now. Do you think that it will work closely with you? What is your estimate? Frankly, do you trust it?

Ivan McKee: We can only base our view on previous experience and, as I said earlier, there have been commitments going back to 2018 on working closely with us, engaging with us, including us in the governance structures and so on, none of which have come to pass. We will see what the future brings but, so far, we have no evidence to suggest that there will be any serious engagement, despite what the letter says. We will be happy if there is and I take this opportunity to encourage the UK Government, if it is listening—I am sure that it is listening to your committee, convener—to move forward as quickly as possible with serious engagement on the proposals.

Patrick Harvie (Glasgow) (Green): I want to move on and explore the possible consequences of the approach that the minister has criticised continuing and there being no change towards closer engagement, but Scotland's voice continuing to be, in effect, frozen out of the process.

We have already discussed the potential loss of expertise and experience in management of funds, meaning that decisions might not benefit from that expertise. What other consequences might arise?

For example, a lot of the funds will be spent in areas of devolved competence. Could there be conflicts between what the UK and Scottish Governments are trying to achieve in relation to devolved policy, whether that is in transport, education or any other area that might be impacted? What are the potential issues if there is a serious disagreement about a particular project that the UK shared prosperity fund wants to approve, but which would require permissions or approvals under devolved competences in order to go ahead—even something like planning?

Finally, in terms of the agenda that we are starting to see from the UK Government, when it talks about inequality and levelling up, that is very often cast in opposition to the legal basis of equality law. We have heard speeches from UK ministers that almost dismiss structural inequalities in society, such as racism, as though they are some sort of woke leftist agenda—they use that language. If a very different philosophical approach were to be taken by the two Governments on what inequality means and how investment can help to overcome it, what could the Scottish Government do about that? What could be the consequences and what action could the Scottish Government take?

The Convener: There is a lot in that, minister. You might want to include David Bell in some of the answers.

Ivan McKee: Absolutely—I will bring in Professor Bell shortly. Thanks for the questions, Patrick. You are right that that applies at a number of levels. Overall, there is clearly an assault—it is not unfair to use that word—on devolution. In effect, the UK Government is parking its tanks on big areas of devolved competence through the process. For example, we have talked about how the UK Ministry of Housing, Communities and Local Government, which has no locus at all in Scotland, is involved in the process in what are clearly devolved areas.

The other part of the shared prosperity fund—the European structural and investment funds replacement and how that interacts with the skills system—would see the DWP being used as the agency for the whole UK. Clearly, we approach skills from a very different landscape: education has always been devolved and our approach and the mechanism and tools that we use to tackle skills challenges are very different in Scotland from those of the rest of the UK. Even the DWP's understanding of what happens in Scotland and the mechanism to interact with colleges and other delivery bodies, such as Skills Development Scotland, is open to question.

10:45

Across the piece, there are a range of questions about how the policy agendas and aims line up and what the delivery mechanism looks like. Groups on the front line seeking support to deliver on various agendas might have to face in two different directions at once. To try to match that up will make everything much more complicated and bureaucratic.

At that level, there is a real challenge to the devolution settlement. As we work down, there are also issues about the mechanics of the fund's alignment. As Mr Harvie identified, there are issues to do with expertise being lost in the on-the-ground delivery mechanisms, and with the history of learning how to tackle the matter in Scotland—which has been built up over decades—being put to one side. It is of concern at many levels—for groups that deliver and the communities and people that they support, and for the devolution settlement.

I am sure that Professor Bell can add quite a bit to that point.

Professor Bell: There could certainly be fundamental disagreements about approaches to issues such as inequalities. It would have been good if there had been some engagement or discussion on that. I will remind the committee of the history of the issue. The EU took a pretty crude, although easy-to-understand, approach to levelling up. It basically assigned criteria for the structural funds based on gross domestic product per head; if an area fell below a certain threshold it would be eligible and, if it was above that threshold, it would not.

The group had a lot of discussions about how to measure differences in need across Scotland and how to take into account new thinking about issues such as wellbeing in discussions. It would be useful to engage to get some kind of understanding so that both the UK and Scottish Governments can exert some influence. If the model is one in which match funding will be required for the UK funding in the programme—whatever that is—much of that will not come from Scottish Government sources, which are supposedly aligned with the national performance framework. Unless there is no match funding requirement, the different approaches could end up being quite confused, depending on the exact funding mechanism.

As I said earlier, Governments can set the overall strategic aim, but it is important not to lose the energy of bottom-up initiatives, in which individuals and groups come up with good ideas about how to improve their communities, and the authority—whatever it is—decides whether that approach fits in the policy framework under which the scheme is operated, and then decides whether to give it the go ahead.

That is on one side; on the other, I agree with the minister that, on the interaction of ESF funding with the Scottish skills agenda, if the ESF funding is essentially run by the DWP, we could end up in a very confused place. Our education and skills systems are different, so it is not clear how trying to fit a DWP agenda over all that would lead to an efficient allocation of public funding.

Patrick Harvie: I have one follow-up question. I am trying to drill down into the specific problems that might arise. David Bell mentioned match funding. The UK Government might state which projects it is willing to fund if the Scottish Government provides match funding. There might be no discussion about alternatives or input into priorities. I presume that, if the Scottish Government were to say no, that would be because it has different priorities and wants, for example, to build a railway instead of a road. That would become a political football and the UK Government would attempt to say that the Scottish Government would not let it spend that money. If the Scottish Government were to say yes, the UK Government would, in effect, have dictated what devolved budgets would be used for and, therefore, dictated devolved policy. Is turning projects into political footballs a likely consequence?

Ivan McKee: That is certainly possible. The lack of clarity on the specifics of where the UK Government is taking that makes it difficult to see exactly but, if we think through the process, that is one scenario that could happen. We do not yet have clarity on what the UK Government is looking at in terms of match funding. Let us see where it goes, but there is no indication yet that it is willing to discuss and align with us on policy priorities, and the delivery mechanisms are not clear. If we get more clarity and see how it will shape up over the coming months, we could end up in the scenario that you described, in which there is a match funding requirement, as has been the case for EU funds, but the Scottish Government—or perhaps a local authority—has different priorities and policy agendas of what we want to deliver. The UK Government could push certain projects that are not among our priorities, which are based on our policy view of what is important in Scotland.

Patrick Harvie: Thank you.

Tom Arthur (Renfrewshire South) (SNP): Good morning. I have a question for Professor Bell, which I hope he is able to assist with.

Can you outline the differences in oversight and decision making between European Union process—at the high level of setting criteria and allocating funds—and the apparent and proposed UK process via the United Kingdom Internal Market Act 2020, which is ultimately at the discretion of the secretary of state? With regard to accountability, engagement, involvement and democratic oversight, can you outline the differences between the two approaches and their implications?

Professor Bell: [*Inaudible*.]—what you mean by the EU processes. The EU processes have changed quite a lot over recent years. They are the outcome of discussions between the various member states and decisions being made around—I guess—cohesion of EU markets. They are part of the armoury in the overall EU levelling-up process, which has operated, particularly in eastern Europe, over the past few years.

The United Kingdom Internal Market Act 2020 is about how the UK internal market will be regulated post-Brexit, so it is not really doing the same thing; it is there to try to ensure that the internal market within the UK continues to operate relatively smoothly, as it has in the past.

Tom Arthur: I will rephrase my question specifically about the powers in the 2020 act that allow the secretary of state to spend in any part of the UK, including in devolved areas. Is that the vehicle by which the shared prosperity fund will be administered and delivered?

Professor Bell: Yes, I guess that that is true. Because of the particular provisions that are not so much about the market but about the powers of the UK Government, the 2020 act allows the UK Government to spend in areas that it has not in the past, and it is therefore possible that the shared prosperity fund could be used to direct funding in wide-ranging areas—sport was one of those that caused me to raise my eyebrows. In effect, yes, it could be the case that the UK Government could, on its own, direct funding to the set of spending priorities that are listed in the 2020 act.

Tom Arthur: That is the issue that I want to get to. I want to understand how much of a break it would be with how the European Union as a whole sets its priorities, if the UK Government chooses to use those powers in the 2020 act to deliver the shared prosperity fund. Throughout the Brexit process, the UK Government has frequently announced funds or processes as analogues of existing EU institutions—for example, the single market becomes the internal market and European structural funds become the shared prosperity fund.

Professor Bell: I do not think that the EU directs funding to be spent in specific areas in member states without consultation of the member states, except in things such as the horizon 2020 research funding system, which is essentially competitive. For example, a university in France might benefit from a large amount of EU funding without necessarily consulting the French Government, but that is the exception rather than the rule. It is a fairly large fund, but it is not massive.

Tom Arthur: I have a follow-up question for the minister on an issue that Patrick Harvie pursued. I want to get a further understanding of whether the minister has concerns about future attempts to erode the competences of the Scottish Parliament. It is clear that some of the objectives of the shared prosperity fund that the UK has announced impinge on devolved competences and that the UK Government has shown itself willing to ride roughshod over the devolution settlement. Does the minister have any concerns in the wake of the United Kingdom Internal Market Act 2020 and the fact that the UK Government has ignored the rejection of numerous legislative consent memorandums? Is he concerned that the UK Government may seek to erode devolved competences further in the name of being able to deliver and implement its shared prosperity fund?

Ivan McKee: We have concerns about the direction of travel and, as we have often said, about the 2020 act being used as a mechanism to impinge on areas of devolved competence and go against the devolution settlement.

We are not the only ones who are worried. The Welsh Government is so concerned that it is seeking a judicial review. There is significant concern across the devolved Administrations about the UK Government's direction of travel and intent. We are concerned about how far the act might challenge areas of devolved competence.

11:00

Tom Arthur: You said in an earlier answer that you had a meeting in November with a UK Government minister from the Scotland Office and that it was not fruitful. Can you say which minister that was?

Ivan McKee: It was Iain Stewart.

Tom Arthur: Thank you.

Dean Lockhart (Mid Scotland and Fife) (Con): The level of EU structural funding that is available to Scotland has been reduced by €75 million in the past few years. Will the minister or his officials explain the reasons for that reduction?

Ivan McKee: Do you have any more specific details on that?

Dean Lockhart: I understand from briefing papers prepared by the Scottish Parliament information centre and others that the Scottish Government underspent on certain projects and that, as a result of that and, I believe, of non-compliant bids for funding, there was a reduction in the level of EU structural funding available. That is what my question is about.

Ivan McKee: I will bring in Hilary Pearce to go into detail about the numbers. I do not recognise that number, but there have been smaller reductions in funding. The most significant one was a reduction in employability service support. We had allocated funds to programmes in certain parts of Scotland at the start of that programme. The reduction in youth unemployment two or three years ago left us with funds that were effectively stranded and could not be deployed for the purpose that they had been allocated for. From memory, that amount was about €13 million. I do not recognise the figure of €75 million. Hilary might be able to give more detail on that.

At the moment, we are in the 2014-20 programme. The total EU allocation to Scotland from the European regional development fund and the European social fund is £738 million. That varies depending on the exchange rate as it is expressed in euros. We have committed the bulk of that and the programme runs for the next three years. We have three more years in which we can continue to allocate the funds.

That is the overarching position. I will bring in Hilary to give more detail about the numbers within that.

Hilary Pearce (Scottish Government): I assume that the question is really about the decommitment level. The European Commission uses a mechanism to ensure that funds are spent by the managing authorities, up to a certain level, within each year. We have not met the level for two years, so the amount that we have not been able to defray within the year gets decommitted.

That has been the case for the past couple of years. I should add that we are applying for an exemption to that for the current year. There is a mechanism called force majeure, which brings extenuating or unusual circumstances into play and allows the decommitment to be put to one side. We are citing force majeure because of the delays that the pandemic has caused to our programmes and to the ability of our recipients to meet their funding targets during the past 10 months.

Dean Lockhart: To follow up on that, do you have an approximate amount for the total funding that has been decommitted in this five or six-year funding round?

Hilary Pearce: I do not have that to hand, but I can certainly put it in writing for you after the meeting.

Dean Lockhart: That would be great. The numbers that I have—which, I appreciate, you might not be able to confirm exactly—are €22 million for 2017 and €50 million for 2018. Do those numbers seem roughly right?

Hilary Pearce: I think that the 2017 figures were adjusted after discussion with the Commission about adjustments that happen after the decommitment level is put out. I can double-check the figures and get back to you.

Dean Lockhart: That would be great.

I have a question about the existing expertise that is available to allocate funding streams, because the minister and Professor Bell expressed concerns about that expertise being available in future funding streams.

As I understand it, 40 lead partners are currently involved in the allocation of the EU structural funds. They include local authorities, the Scottish Funding Council, Skills Development Scotland and a host of other bodies that are very hands-on in administering EU structural funds. Obviously, we need more details about the UK shared prosperity fund, but I assume that those same bodies will, at the end the day, be involved in the allocation of funds under the UK shared prosperity fund, so the expertise of the 40 lead partners will still be available to that extent. What are Professor Bell’s and the minister’s thoughts on that?

Professor Bell: I was not suggesting that all the expertise relating to applications and processing of structural funds will be lost. My worries are largely about the involvement of voluntary organisations, which play an important role with some of the funds. They are on a much less secure basis than are the basically statutory organisations. Given that we think that there is a strong case for community-based initiatives coming forward, my main concern is that there might be a loss of momentum in that area.

Ivan McKee: It must be understood that there is a two-tier structure, which is made up of the lead partners and the delivery organisations that sit below them. Dean Lockhart is right that, including local authorities plus some others, there are about 40 lead partners, but below that are several hundred delivery agents, which are often small local voluntary organisations that funnel large chunks of the funding to the areas where it is needed.

A loss of capacity can occur at that level. We are in a position of uncertainty. We do not know what is coming down the track, so we are making assumptions about what the funding mechanism will look like with it going to local authorities. We do not have clarity on that yet, and the risk of a funding gap puts many of those smaller local organisations at risk right across the country. That is a real concern, which has been expressed by those organisations, the Scottish Council for Voluntary Organisations and other lead partners throughout the past couple years. The issue is increasingly of concern as we continue to have a lack of clarity about what the shared prosperity fund will look like.

Dean Lockhart: If we end up in a situation where the shared prosperity fund involves those voluntary and local community organisations, your concerns would be addressed.

Ivan McKee: Timing is absolutely huge. A gap of even a short period can cause serious problems, because those organisations cannot continue to keep their staff in place during a period when they have no funding. Timing is critical, so that issue would have to be addressed as well.

Dean Lockhart: Thank you.

Fulton MacGregor (Coatbridge and Chryston) (SNP): The areas that I wanted to ask about have mainly been covered, but I have two general questions: one for Mr McKee and one for Professor Bell.

Minister, we have talked a wee bit about how the announcement on the shared prosperity fund has come about. Given that context and that the UK Government has opted not to attend this committee meeting today, will you again go over your plans for how the Scottish Government will engage with the UK Government on the matter and what you hope that might lead to?

Ivan McKee: It is hugely concerning. Clearly, all that we can do is write to the UK Government and try to engage with it, make statements in public, talk to this committee and others and make the point that it is hugely important that the UK Government engages with us. It is important that the UK Government hears that not just from us but from all the stakeholders in Scotland who are increasingly concerned—concern has been mounting for months and years now—about the lack of engagement and support.

John Mason spoke about the letter from the Chief Secretary to the Treasury in which, at paragraph 14, right at the end of a three-page letter that is largely about other matters, he drops the bombshell about how the UK Government intends to fund the UK shared prosperity fund. That was not helpful.

The only other indication that we had about the UK Government’s direction of travel on the matter was when another UK Government minister was on “Good Morning Scotland” a few months back and said, probably inadvertently, that the UK Government intended to run the scheme directly.

Those two examples are really the only communication that we have had from the UK Government about its intention for the prosperity fund. We have repeatedly asked for engagement on the matter and I hope that we will get something soon, but we have been waiting a long time for it. We continue to push for ministerial meetings, but I have had ministerial meetings cancelled on me at various times. As I said, the situation has been less than satisfactory.

Fulton MacGregor: Yes, very much so. That is not good at all, but thank you for clarifying the issue.

Professor Bell, I have a general question for you as well. Will you go over the areas of the structural funds that you think stakeholders and those who benefited would most want to be retained in the new system? What are the key provisions that you would like to be retained?

Professor Bell: The existing funds have changed in nature over the years. Early on, the structural funds were quite important for big infrastructure developments in Scotland. For example, they part-funded the Edinburgh ring road. Through time, that has changed and there has been less emphasis on overall infrastructure spending. However, it is important that we maintain a momentum in areas such as innovation.

My main economics expertise is in the area of labour and therefore areas such as skills development and the colleges. European funding is important to Scotland's colleges but perhaps a bit less so to the universities. Nevertheless, the universities benefit to some extent from it, and the whole employability agenda is part-supported by European structural funding.

The EU funding is not huge compared to overall public spending in Scotland, but it supports some important initiatives. Although it is important to closely evaluate those initiatives, when I went round the country, I detected huge support for the kinds of initiatives that the EU part-funded and a hope that that funding would continue.

11:15

The Convener: I have one final question, on an issue that has begun to concern me more and more as I have listened to the discussion. Professor Bell mentioned a couple of times that one of the key issues with community-based projects is the bottom-up approach in the structural funds process.

Nothing makes that point clearer than the LEADER programmes. It struck me that many LEADER organisations across Scotland—particularly, in my constituency, the Forth Valley and Lomond LEADER Action Group—have done an amazing job on the ground, supporting local projects such as environmental and education projects and all sorts of activity including business activity. Do we have any feel yet about where we are with the LEADER programmes and how their funding will be decided in the UK shared prosperity fund?

Professor Bell: The LEADER programme always tended to sit as a satellite to our discussions, because it is not in the ESIF funding but is more associated with agricultural funding. For our work, we recognise the importance of LEADER funding, particularly in rural areas, and we have argued that, for it to continue, it should be included in the scope of the shared prosperity fund. However, that would require the opening of a different funding channel. The direction of the LEADER funding is even less clear at the moment than that of the other forms of funding that we have been discussing.

The Convener: Minister, do you have any knowledge of the LEADER funding? If not, could your officials write to us with an update when decisions are reached?

Ivan McKee: There is a lack of clarity on the rest of the funding programme, but there is even less clarity on the LEADER one, because we do not even know whether it is included in the shared prosperity fund. We have worked on the assumption that it will be included because, as you rightly identify, it is hugely important. The LEADER programme needs to be funded, and we factored that into the funding calculations that we have already articulated.

The broader point is the importance of having the programmes being delivered as close to the ground as possible. We have recognised that point and factored it into all our discussions, evaluations and the position paper that we have published. It is important that local engagement is absolutely central. Economic research evidence says that that is the case. It can be demonstrated that, the closer to the front line those mechanisms are designed, the more effective they are.

I ask David Bell to comment on that.

The Convener: David touched on that point in his answer to me, but I am sure that he will want to expand on it.

Professor Bell: I go back to the first principle that I discussed in my opening statement. In general, there is an argument that funds are best decided on as close as possible to those who receive the benefit from those funds. We have to set against that the capacity of small groups to be able to correctly fund applications, manage projects and evaluate them afterwards. A balance needs to be struck. However, my understanding is that the EU is progressively moving towards a more bottom-up approach to its funding mechanisms in the next round of ESIF funding.

The Convener: I thank the minister, Professor Bell and the officials for their evidence.

Meeting closed at 11:19.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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