ESEC RESPONSE TO THE SCOTTISH GOVERNMENT'S CONSULTATION ON THE REPLACEMENT OF EUROPEAN STRUCTURAL FUNDS IN SCOTLAND POST EU-EXIT

February 2020

The purpose of the consultation is to clarify:

- the aim and objectives of post EU Exit funding in Scotland;
- how to maximise its added value;
- the extent to which it should be aligned with Scottish, UK and EU policy priorities;
- whether and how it should be concentrated thematically or geographically;
- the appropriate arrangements for monitoring and evaluation;
- the most effective and efficient approach to governance and partnership.

A. Strategic Aims

Objectives

Scottish Ministers want to take this opportunity to design a flexible source of additional funding that drives inclusive economic growth and makes a measurable and significant difference to the lives of people, businesses and communities across Scotland. With this in mind:

1. What are the main aims that this funding should seek to achieve?

Current and previous EU Structural and Investment Fund (ESIF) programmes have supported innovation, competitiveness, employability, jobs, and sustainable growth. The replacement funding framework should occupy the void that will be left with the cessation of ESIF, which has sought to reduce economic inequalities within Scotland, while also providing opportunities for inclusive economic growth.

The European Social Fund (ESF) supports people furthest from the job market in getting back into employment, learning new skills, tackling debt problems or entering into further education and training. The replacement funding could be broadened to also support career transitions, retraining and the upskilling of the established workforce. This would support the growth and emerging sectors by ensuring that the appropriately skilled workforce was available for recruitment and development. Upskilling and retraining programmes could be of even more importance when the freedom of movement of EU workers comes to an end, and thereby closing of access to this labour supply. This is specifically an issue in key sectors of our local economy such as food and drink, agriculture and construction and vital for the sustainability of the rural economy. If Scotland is to be a competitive country, funding should be used to deliver an enabler programme to help increase the capability of the workforce in businesses.

While the ESF traditionally has focused on supporting those most in need, the European Regional Development Fund (ERDF) has promoted economic growth by investing in business development and innovative technologies. Investing in such opportunities and regional potential is of equal importance to investing in areas of need and deprivation, and this should be reflected in the replacement funding. ERDF Business Gateway has provided grants to support start-ups and growth businesses, and provides strategic support for Scotland's SME community. The ERDF has also introduced opportunities such as the Low Carbon Travel and Transport Programme which has supported the installation of Electric Vehicle charging points across Scotland, along with the development of local active travel hubs. The Low Carbon Infrastructure Transition Programme also came under the umbrella of ERDF in 2014-20, which enabled organisations to develop and integrate a range of low and zero carbon solutions to provide heat, cooling and power energy hubs.

Therefore, in following the principles of traditional EU Structural Funds programmes, the replacement framework should seek to achieve social and economic progress based on need/levels of deprivation, but also the economic performance and potential of towns and cities, both urban and rural.

2. How could funding be used most effectively to address spatial inequalities between areas and communities in Scotland?

The blend of methods in allocating funding will necessarily vary if the new fund is to genuinely address inequalities between areas and communities in Scotland.

The methodology for calculating ESIF allocations – GDP as a % of the EU average - means that the East of Scotland and the North East of Scotland are classified as 'well-developed' regions and therefore are subject to less-favourable conditions in funding, such as more-restricted thematic areas or lower co-finance rates. However, relying solely on GDP creates a misleading picture and is inadequate at addressing inequalities between communities. Taking into consideration other measurements such as the Scottish Indicator of Multiple Deprivation (SIMD)and considering rural and urban classifications makes the case for a more targeted and effective level of financial intervention.

3. Geographically, at what level would the priorities for funding be best set?

The principle of subsidiarity should be applied – that is to say that activities that are better delivered at the local level must always be delivered by the relevant local actors, including councils. Local authorities have long standing experience of developing and delivering EU-funded projects. With the lead role for Community Planning as well as ensuring the implementation of Community Empowerment, local authorities are in the best position to identify and engage with local need and opportunities. In many rural areas local authorities have been the lead for development of LEADER and EMFF Development Plans and the accountable body for the delivery of the programmes. Given these circumstances, representatives from local authorities should be involved as co-designers and creators of the new fund, and not involved in the process merely as consultees.

Alignment with Scottish Policy and Other Funding Streams

Scotland has a set of high-level strategic documents that guide the direction of our policy development and spend. These are focussed on inclusive economic growth and include our National Performance Framework, our Economic Strategy, our Programme for Government and our new Enterprise and Skills Strategic Board approach.

4. How could the use of future funding add value to other sources of funding focussed on similar objectives in Scotland?

Scotland's Economic Strategy is well aligned with the Europe 2020 strategy of delivering smart, sustainable and inclusive growth, and indeed the EU's programme for 2021-27, therefore this document would serve well as a blueprint for the new fund, given its commitment to public sector agencies working together, a partnership approach to implementing key social and economic policies, and its stated objective of promoting inclusive growth by creating opportunity through regional cohesion. Scotland's Economic Action Plan 2019-20 sets out key ambitions for investment, enterprise, skills, people, sustainability, and innovation, and we should reflect these priorities in developing the future funding framework.

The replacement funding must maintain the principle of additionality, as is the case with EU Structural Funds, in order to avoid duplication or conflict with other domestic funding, and to ensure transparency and maximum impact.

Alignment with UK and EU Policy

The UK Government has said that the SPF will be aligned with its Industrial Strategy and will focus on increasing productivity. At the same time, the European Union is evolving its Cohesion Policy with a structure of 5 themes: A Smarter Europe; A Greener, carbon free Europe; A Connected Europe; A More Social Europe; and A Europe closer to citizens, to create a more tailored approach to regional development in order to drive EU investments.

5. What practical value would you see in future funding in Scotland being aligned with the UK Industrial Strategy and other spatially-differentiated UK economic policies such as the City and Regional Deals or the Industrial Strategy's sectoral approach?

Through the delegation of the welfare system, there is an opportunity for Scotland to achieve better alignment and wrap around with the national Fair Start Programme. There is also the opportunity for flexibility to address local and regional variations and needs.

Strictly aligning to the specific content of the UK Industrial Strategy could lead to the disengagement from the core needs of our local economies. This being said, the concept of the Grand Challenges contained with the Industrial Strategy is an interesting one, and incorporating 'industries of the future' into the new fund could allow for flexibility and ambition in terms of delivering innovative projects, while avoiding the need to re-write the programme to address emerging opportunities and technologies.

<u>6. What practical value would you see in maintaining alignment with EU Cohesion Policy?</u>

Maintaining a degree of alignment with EU Cohesion Policy and the five themes for 2021-27 of: A Smarter Europe; A Greener, Carbon Free Europe; A Connected Europe; A More Social Europe; and A Europe Closer to Citizens, would allow for easier integration and access into key EU programmes such as Erasmus+ and Interreg. Participation in these programmes post-Brexit is a key demand for our local authorities, and we have made this point to both the UK and Scottish Governments. These five themes are also complementary to those in the Scottish Government's Programme for Scotland 2019-20, which has well-being and securing a positive future at its heart.

The European Union has recently committed to the European Green Deal, a package of 50 initiatives which aims to make the continent of Europe carbon neutral by 2050. This is in line with the Scottish Government's own ambition of net-zero emissions of all greenhouse gases by 2045. To support these ambitions, the European Commission has proposed that the next generation of EU funding and priorities should focus heavily on Low Carbon activity, including the Just Transition Mechanism. It is important that any future Shared Prosperity Fund reflects the aspirations of the EU's green transition to ensure that we remain competitive with our European neighbours.

Evaluation and Monitoring Progress

In order to ensure that any new fund is achieving its aims and objectives, it is important that an evaluation approach is developed in parallel.

<u>7. How could we best evaluate the success of this new fund?</u>

Identifying measurable and realistic targets from the outset, focused on the key priorities, will be essential. The setting of relevant indicators should be developed as part of the programme, and not added on at the end. This again calls on a partnership approach in developing the new fund to ensure that targets will be effective and appropriate.

In order to introduce a replacement financial framework which complements and aligns with existing initiatives, the monitoring and evaluation could mirror the outputs, outcomes, measurements already established for the National Performance Framework.

<u>8. What relevant parts of the National Performance Framework should this funding be targeted towards?</u>

There are a number of key areas that should be addressed:

- **Environment** – Energy from renewable sources; waste generated; industry, innovation and infrastructure; life on land.
- **Fair Work and Business** – The number of businesses; high growth businesses; innovative businesses; economic participation; decent work and economic growth.
- **Education** – Skills profile of the population; work place learning; skill shortage vacancies; skills under-utilisation; no poverty; reduced inequalities.
- **Communities** – sustainable cities and communities;

- **Poverty** – Unmanageable debt; persistent poverty; reduced inequalities.
- **Economy** – Productivity; access to superfast broadband; economic growth; carbon footprint; greenhouse gas emissions; entrepreneurial activity; affordable and clean energy; and reduced income inequality.

9. Which specific aspects of the monitoring and evaluation framework from European Cohesion Policy do you consider would be beneficial to retain for any new fund?

The current monitoring and evaluation framework of ESIF has not had much positive feedback from staff engaging with the systems. Regarding reporting, there is a range different IT systems used for EU programmes, including for ESF/ERDF (EUMIS), LEADER (LARCS) and EMFF. The key transnational programmes with which local authorities engage, namely INTERREG and Erasmus+, again have different systems. Some of these systems work much better than others. Experiences with EUMIS in particular have not been favourable. Differing systems also cause confusion for local authority finance departments, who do not always understand the difference across or within EU programmes.

In order to improve the evaluation process, an enhanced harmonised IT system should be designed, thoroughly road-tested and in place by the conclusion of the ESIF and for the start date of the replacement funding framework.

B. Governance Structures of Future Funding

Allocation and Programme Duration

Whilst funding allocations will largely be determined by our objectives, we must make sure that our approach is developed in an appropriate manner which is sensitive to differing needs across Scotland. We also need to be clear about the timeframes over which any funding programme would operate.

10. What approach should be used to allocate the funding at programme level - including the most effective duration of the programme that would better support the identified priorities?

The multi-annual framework of ESIF which extends beyond parliamentary terms remains crucial to enable real structural change to be planned and programmed. This allows for local authorities to design, develop and deliver high-quality projects for the benefit of the local community.

11. What would be the most appropriate partnership and governance structure to achieve the strategic objectives of the future funding?

In the 1990s Scotland used an innovative partnership-centred model for delivering ESIF, which involved local authorities, HE/FE, Third Sector and other relevant stakeholders. The Scottish Office had the responsibility for claims and payments. Colleagues who worked in the programme at this time report that the system worked well. However, recent ESIF programmes have become very centralised within the hands of the Scottish Government. There is very limited transparency in the decision making process and this needs to be addressed. It is crucial that the genuine partnership working be reintroduced, at all states of the process, from the initial design of the new framework through to decision making and eventual evaluation of the projects.

The success of the LEADER Programme is very much to do with the partnership model of delivery through Local Action Groups which comprise public, private and community representatives. This ensure a broad range of local (or regional) knowledge and skills to make decisions on projects and oversee delivery of the Local Development Strategy which sets out local and regional need and priorities. A broad partnership also approach reflects the governance of the City Deals.

The Managing Authority cannot also be the auditing/verification body as well as the assessing body etc. In Scotland the 2007-13 programme period had ESEP Ltd as an Independent Administrative Body (IAB), and this created a separation between the decision making body and the operational administrative body. In case of any dispute the Scottish Government was then able to take an independent view on the matters. This separation of duties is very important in order to ensure transparency and to avoid conflict of interest. This works very well in the LEADER and EMFF Programmes.

The current Strategic Intervention (SI) model has proven to be ineffectual. It has created a cluttered landscape and a reduction in transparency across the programme, which has led to confusion over deadlines and application processes. Other issues arising as a result of multiple Strategic Interventions is that there was no uniform way in maintaining contact with potential beneficiaries, and information was not circulated in the same way or to the correct people. This also led to issues within larger organisations when applications were made by multiple departments/officers.

<u>12. What would be the most effective delivery model to ensure maximum leverage of funds from public and private sectors to regional investments?</u>

The current programme delivery model for ERDF should not be replicated in any future programmes. The current model identifies a range of key themes/interventions, and we agree that this theme based approach should continue, with elements of funding being allocated to themes. However, each theme is delivered by a Strategic Intervention lead which varies from local authority level to national bodies such as Transport Scotland or SNH. Each Strategic Intervention lead has developed their own application forms and assessment processes meaning that applicants who might be applying to more than one theme have to manage multiple processes and understand the background to each of these themes. In previous programmes, all themes were managed by the Independent Administrative Body (IAB) and this led to a joined up, cohesive approach, with one application form and set of guidelines for all themes - this is much easier for applicants to access and to understand.

We would not support the introduction of a UK-wide challenge fund model as this would distort the objectives of the replacement funding, as it could lead to projects being approved on the availability of match-funding or the scoring of a particular application, rather than the local/regional need.

An agreed formula should be the basis for the funding allocated to local government. The future funding framework should encourage cooperation across regions, not competition, and funding should be awarded based on local or regional demand, which in turn would support local authorities in delivering projects that meet need and demand.

Encouraging match funding however from both public and private sector for projects is important to ensure projects are additional and have maximum input and impact.

A challenge fund approach could be the appropriate model for projects which seek to introduce innovative technological solutions, which is the case for the current ERDF low-carbon strands. In terms of funding essential priorities such as addressing poverty and social exclusion, direct allocation of funding is more appropriate, as is the case with the current ESF programme. We recommend retaining as many options as possible in terms of funding models (procurement / challenge fund / flat rate model of Direct Staff / etc.) with the ability to select the most appropriate for the associated project – whether it be capital, revenue or otherwise and to allow for flexibility in the scale of projects.

<u>13. What capacity-building or other support is needed to ensure the ability of local partners and communities to participate in the programme?</u>

This will depend on how the programme is delivered, who is managing the funds, what support they can offer, and indeed what experience they have of managing funding. It will also depend on the monitoring requirements of the new programme. If systems are more user-friendly and less complex, then there will be less need to train people how to use and understand the processes. Reducing bureaucracy would enable smaller organisations to engage with the programme, which would then reduce the need for additional time in capacity building and training.

Through the CLLD approach of LEADER there has been significant investment in community and partner capacity building and it is vital that the legacy of this is captured and developed.

14. What can be learned from the design and delivery of the current and previous European Structural Fund Programmes in Scotland?

As previously stated, the Lead Partner model has not been successful. Reintroducing the process of genuine partnership working would already give the new programme a head start. Regional issues cannot be managed by national organisations, with limited control at the local level. The 2007-13 programme had priority areas, all managed by the Managing Authority, which were not aligned to a national body. This allowed for more flexibility to take account of regional variances. Furthermore, the lead partner system adds a further level of bureaucracy, and the replacement framework offers an opportunity for a more, efficient, streamlined process.

The audit process is overly-bureaucratic, concentrating on technicalities, paperwork and processes with no requirement to provide case studies, which would evidence the real impact the funding has made to clients, either as individuals in the case of ESF or as businesses in ERDF Business Gateway projects.

As also stated the success of the LEADER and EMFF Programme delivery and design has ensured genuine partnership, cross sectoral engagement and built capacity. It has allowed for devolved decision making. It also has been successfully delivered by local authorities as accountable bodies overseeing the management, governance and having financial and audit responsibility.

The amount of transparency across the ESIF programmes has decreased considerably in recent years. In previous programmes, there was a lot more peer review in the application process and in decision making and unfortunately that is no longer the case. More transparency and clearer consistent rules are key.

Another issue is the need for match funding. Local authorities can be allocated generous sums of funding but if there is an unrealistic need for match funding, and this is a mandatory element of being able to deliver projects, then these projects will not be delivered. With reducing budgets there is less match funding available in councils therefore there needs to be scope for innovative and new funding to be used in projects alongside public and private funds. These are the types of funding packages in City Deal projects.