

**ARGYLL AND BUTE COUNCIL OFFICER RESPONSE TO THE INQUIRY:
FUNDING OF EU STRUCTURAL FUND PRIORITIES IN SCOTLAND, POST-
BREXIT**

1.0 INTRODUCTION

- 1.1 The purpose of this report is to update members of the Environment, Development and Infrastructure (EDI) Committee with the officer response to the current inquiry 'Funding of EU Structural Fund Priorities in Scotland, post-Brexit' issued by the Scottish Parliament Finance and Constitution Committee.

2.0 RECOMMENDATIONS

- 2.1 Members are asked to:
- Approve the response to the Scottish Finance and Constitution Committee outlined in full in **Appendix A**, which was submitted as an officer response on 23rd April 2019 (deadline 25th April 2019) subject to EDI Committee approval.

3.0 DETAIL

- 3.1 The Scottish Finance and Constitution Committee has issued a call for views on 'Funding of EU Structural Fund Priorities in Scotland, post-Brexit'. The deadline for submission of responses to the committee was 25th April 2018.
- 3.2 The committee agreed the following remit: *"To explore the experience of lead partners, delivery agents and beneficiaries to inform the design of any future funding of structural priorities in Scotland post-Brexit. Given their parallels LEADER funding is included in the scope of this inquiry."* Council officers have also made reference to the current European Maritime and Fisheries Fund (EMFF).
- 3.3 To achieve the agreed remit the committee sought views and experiences from lead partners, delivery agents and beneficiaries aligned to the themes and questions noted in **Table 1** overleaf.

Table 1: Funding of EU Structural Fund Priorities in Scotland, post-Brexit: Themes and Questions
Core approach
<ol style="list-style-type: none"> 1. How should Scotland's share of post-Brexit structural funding be determined? (for example, should it be on measures such as GDP, needs-based, via the Barnett formula; match funding or based on competition?). 2. Should the existing structural funding <i>priorities</i> be retained for any new funding approach post-Brexit or are there other national or regional outcomes, strategies or plans to which future funding should align instead? 3. In terms of the proposal for a UK Shared Prosperity Fund - where should the responsibility for any decisions about funding levels and allocation be taken (for example UK Government, Scottish Government, Local Government or local stakeholders) and what level of autonomy should they have in deciding how funding is allocated? 4. To what extent should the current system of allocating funding to strategic interventions across Scotland through lead partners etc. be retained or changed by any post-Brexit funding approach and why?
Barriers to funding projects
<ol style="list-style-type: none"> 5. What barriers limit strategic intervention funds being committed to individual projects under the current programmes and to what extent should any new structural funding approach address these barriers? 6. To what extent should any rules relating to post-Brexit structural funding enable a flexible approach to the range of local projects that can be supported or should the rules focus on funding specific outcomes or purposes (such as through ring fencing)? 7. Are there examples of current structural fund priorities being more effectively supported by other funds (or core funding) such that they should not form part of any post-Brexit structural funding approach?
Administration
<ol style="list-style-type: none"> 8. What changes to the current monitoring, evaluation and compliance activities would reduce administrative complexity for any future structural funds approach while maintaining sufficient transparency? 9. Should the system for making claims change for any future funding approach?

3.4 Detailed responses to each theme and associated questions are outlined in **Appendix A**. The council's response includes specific issues for Argyll and Bute, but also incorporates the comments included in the SLAED European Group, West of Scotland European Forum and COSLA responses.

4.0 CONCLUSION.

- 4.1 It was important that Argyll and Bute Council officers provided a local response to this current inquiry as well as aligning to a collective response made by partner organisations across Scotland.
- 4.2 Overall, one of the key issues for Argyll and Bute with regard to the inquiry is that the approach and systems used for EU structural fund allocation, implementation and delivery can be improved upon to ensure the UKSPF provides additional funding (not "top slicing" existing non-European funding streams) that is apportioned in a fair and transparent manner. Such an approach should give priority to the identified development needs of Argyll and Bute as a region with many fragile local economies, where in turn there is a clear ambition to address such challenges and enable sustainable economic growth.
- 4.3 Importantly for Argyll and Bute, clarity is required on whether rural development support will be part of the UKSPF or whether the new

support for Rural Scotland will have a community empowerment instrument for non-farming activities that would replace the current LEADER programme; likewise for the successor of the local development element of the current European Maritime and Fisheries Fund (EMFF).

5.0 IMPLICATIONS

5.1	Policy	Argyll and Bute Economic Strategy and Associated Action Plan which focus on maximising external funding opportunities for the area. These documents in turn fit with the Council's Corporate Plan, Strategic Housing Investment Plan, Local Outcomes Improvement Plan priorities 1, 2, and 3, Rural Growth Deal proposition document and approved Local Development Plan.
5.2	Financial	Ensuring a proportionate share of the UKSPF comes to Argyll and Bute.
5.3	Legal	All appropriate legal implications will be taken into consideration.
5.4	HR	None.
5.5	Equalities/Fairer Scotland Duty	All activities will comply with all Equal Opportunities policies and obligations.
5.6	Risk	To mitigate the risk of issues not being captured for the Argyll and Bute area through this inquiry, Argyll and Bute Council officers submitted a response in the timescales given.
5.7	Customer Services	None.

Pippa Milne, Executive Director of Development and Infrastructure
Cllr Aileen Morton, Leader and Policy Lead for Economic Development
 3rd May 2019

APPENDIX A

Argyll and Bute Council Officer Response

Argyll and Bute Council officers welcome the opportunity to contribute to the Finance and Constitution Committee's inquiry into the 'Funding of EU Structural Fund Priorities in Scotland post-Brexit'.

Core approach

1. How should Scotland's share of post-Brexit structural funding be determined? (for example, should it be on measures such as GDP, needs-based, via the Barnett formula; match funding or based on competition?).

A key point to make in this connection is not just the share of the overall UK Shared Prosperity Fund (UKSPF) allocated to Scotland but the quantum of resources.

The need for the UKSPF to be adequately resourced is shown by the very significant regional economic disparities in the UK, in particular the dominance of London. In 2012 London accounted for 22.8% of output generated in the UK, by 2017 this had increased to 23.9%.

The scale of the problem has not diminished nor is there any convincing evidence from recent economic trends to justify a substantial change in the share of resources allocated to Scotland. There is also a related point to make here regarding the need for a genuinely multi-annual approach in the design of the UKSPF – this is not a topic that can effectively be addressed by a “quick fix” approach. Furthermore, Argyll and Bute Council officers would have serious concerns if the Fund was designed on a UK wide challenge fund basis as this could distort the intention of the UKSPF – promoting inclusive growth – by allocating on the basis of the availability of match funding rather than on need.

With a focus on the inclusive growth agenda measures such as GDP is a limited measure and masks inequality issues, for example, the number of people living in poverty. The main criterion used to decide the allocation of EU Structural Funds for the current programme period, 2014-2020, was GDP per capita. On this basis, the Highlands and Islands moved from being a 'less developed' region to one of 'transition' for the 2014-2020 European programming period.

Argyll and Bute Council officers are currently pulling together suggested indicators and a supporting narrative to baseline and measure the challenges and tackle inequalities for the area to secure a fair and proportionate share of future funding streams through the UKSPF. Proposed indicators are as follows:

- Working age population;
- Youth employment and higher education rate (16-24 cohort);
- Infrastructure/connectivity;
- Housing (quality, price/affordability , fuel/energy issues and digital connectivity);
- Business base; and
- Rurality issues.

2. Should the existing structural funding *priorities* be retained for any new funding approach post-Brexit or are there other national or regional outcomes, strategies or plans to which future funding should align instead?

While there is nothing intrinsically wrong with the priorities for the 2014-20 European Structural Funds, Argyll and Bute Council officers believe these are not as aligned as they should be with the Scottish Government and regional/local economic strategies in Scotland. Over a number of EU funding cycles, EU funds in Scotland have become progressively more difficult to access for the physical regeneration agenda. The UKSPF should recognise the priorities of the Scottish Government Economic Strategy – including its commitment to the place based dimension of inclusive growth. One of the points made by a number of contributors to the Economy Committee Inquiry in 2018 was the lack of “granularity” in the Scottish structural fund programmes – in other words the capacity to develop bespoke approaches to the differing needs of regional economies within Scotland was missing.

3. In terms of the proposal for a UK Shared Prosperity Fund - where should the responsibility for any decisions about funding levels and allocation be taken (for example UK Government, Scottish Government, Local Government or local stakeholders) and what level of autonomy should they have in deciding how funding is allocated?

The UKSPF needs to be additional and indeed this principle is one of the positive aspects of EU structural funds. The resources for UKSPF should not be identified by “top slicing” existing non-European funding streams. The Scottish Government should have the responsibility for setting the strategic framework for the deployment of funds and monitoring the delivery of UKSPF in Scotland. Within this framework there should be substantial delegation of decision making and implementation within Scotland; either at a regional or a local authority level. Scrutiny by the Scottish Government should primarily focus on holding regional and local stakeholders to account on delivering outcomes rather than the current microscopic audit of inputs that characterise EU Structural Fund Programmes.

4. To what extent should the current system of allocating funding to strategic interventions across Scotland through lead partners etc. be retained or changed by any post-Brexit funding approach and why?

In relation to the “Strategic Intervention” (SI) system of managing funds, Argyll and Bute Council officers are unconvinced about the value added of this approach. There is a great deal of overlap in the information being sought at the SI stage and the “operation stage”. The extensive paperwork associated with the submission and appraisal of SIs slowed down significantly the process of approving operations which actually commit monies from the programme. This in turn has contributed in part to the difficulties the Scottish ERDF and ESF programmes have had in meeting their expenditure targets.

If a two-stage process is deemed appropriate for UKSPF then the SI stage should be streamlined with detailed consideration of issues such as procurement, State Aid etc. being left to the operations phase.

While all of the CAP Pillar I and most of the Scottish Rural Development

Programme (SRDP) is devoted to farm-related support, SRDP has, under EU regulations, a compulsory ring-fence of 5% to deal with community-based projects under LEADER where Local Action Groups (LAGs) develop bottom up Local Development Strategies that suit their area.

Work between DEFRA and the Scottish Government Rural Economy and Communities Division and the respective ministers is ongoing and very active on farm related activities, to be covered in the respective Farming Bills, there has been less progress on the rural development element. It is not clear whether rural development support will be part of the UKSPF or whether the new support for Rural Scotland will have a community empowerment instrument for non-farming activities that would replace the current LEADER programme; likewise for the successor of the local development element of the current European Maritime and Fisheries Fund (EMFF).

Barriers to funding projects

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

One of the issues that have prevented the full uptake of the available funds has been a lack of match funding. Although the Scottish Government has started to look at higher intervention rates it is constrained by past commitments (50% for the Highlands and Islands and 40% for the rest of Scotland). In the UKSPF 50% support should be seen as a minimum rather than a maximum.

Lack of match funding has meant that many lead partners have required, in the context of both procurement and challenge fund exercises, potential delivery agents to “bring their own match”. These were the main reasons why Argyll and Bute Council was unable to apply for ESF monies under the ‘Enhanced Employability Pipeline Strategic Intervention’. Council officers are now aware from other areas that given that in many cases the potential delivery agents are third sector organisations with very limited resources this has led to a number of abortive procurement/challenge fund exercises.

In addition to the match funding issue the complexity and responsibility of acting as a lead partner has deterred a number of local authorities from taking up their notional allocations – either in full or in part – for a number of the structural fund programme priorities. The EU compliance burden has also resulted in a number of potential delivery agents declining to submit bids to either procurement or challenge fund exercises.

It is also worth highlighting that, in many cases, there is a very long delivery chain with the current approach to managing structural funds in Scotland. An approved “operation” may only be a challenge fund which the lead partner will be reluctant to launch in advance of formal approval. Time then has to be allocated for organisations to prepare bids which in turn have to be appraised. Successful bidders then have to be notified and the process of issuing and accepting a formal grant offer put in motion. Only after that point is activity “on the ground” likely to start. Again this impacts on the ability of the programmes to meet expenditure targets

6. To what extent should any rules relating to post-Brexit structural funding enable a flexible approach to the range of local projects that can be supported or should the rules focus on funding specific outcomes or purposes (such as through ring fencing)?

Looking ahead towards the UKSPF in Scotland the following would improve the experience and results of structural interventions:

- Regional/local design and management within a national framework to ensure relevance to socio-economic circumstances and broader strategic fit;
- Flexible and realistic timeframes for implementation - underscoring the need for a multi-annual approach;
- An emphasis on outcomes and results linked to the Scottish Government's inclusive growth agenda; and
- An intervention rate regime that properly reflects the realities of the constraints on public sector finances.

7. Are there examples of current structural fund priorities being more effectively supported by other funds (or core funding) such that they should not form part of any post-Brexit structural funding approach?

Current structural fund priorities should be retained but greater recognition should be given to local/regional strategies where there may be a requirement for additional priorities to take forward local opportunities and address local needs, challenges to deliver sustainable socio-economic growth. It is not clear whether current structural fund priorities, currently devised at a national level, have been more effectively supported by other funds. However, as noted above, the UKSPF needs to be additional and resources should not be identified by "top slicing" existing non-European funding streams.

Administration

8. What changes to the current monitoring, evaluation and compliance activities would reduce administrative complexity for any future structural funds approach while maintaining sufficient transparency?

One of the main problems with the current Structural Fund programmes in Scotland has been the shortcomings of the MI system (EUMIS). Not only did it take two years longer than anticipated to achieve full functionality, it has also proven to be an extremely cumbersome system for users. To give an example if a claim is being processed by EUMIS then no changes can be made to the operation – for example notification of a change to match funding – until the claim has been processed. It is important to be aware that it is taking an average of 82 days for a claim to be processed.

The experience of other employability/business support programmes in Scotland or other parts of the UK could also be investigated to ensure that the systems to be used for UKSPF are broadly comparable. EU Structural Fund programmes have historically much more onerous than those relating to "domestic" funding streams.

In addition the opportunity should be taken to reduce the very long period which EU Structural Fund Regulations set out for document retention. Given that the

majority of operations approved under the 2014-20 programmes will now continue activity to 2022/23 it is likely that all documents relating to such operations will have to be retained until at least 31st December 2025.

Consideration could also be given to setting up an advance payment model. This would particularly benefit smaller organisations.

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

Looking ahead to the UKSPF consideration needs to be given to the amount of data that needs to be supplied to back up each claim. A reduction in the amount of data to be verified would speed up the payment process. Assurance could be secured through a combination of up front systems checks and random checks during the course of implementation.