

RSE RESPONSE TO SCOTTISH PARLIAMENT'S FINANCE AND CONSTITUTION COMMITTEE INQUIRY ON STRUCTURAL FUNDS POST-BREXIT

- › Since the Brexit referendum the RSE has been engaged through our EU Strategy Group which has produced position papers, as well as responses to inquiries and consultations.
- › In the funding period 2014-20 of Structural Funds, Scotland has experienced relative success in funds as it received a level of fund proportionate to its population which was more than it would have received through the EU distribution formula. Moreover, if the Structural Funds continued to be accessed it is projected that Scotland would receive around £715m in the next funding period from 2021-27; this is less than it received in the period 2014-2020 as Scotland is due to receive a maximum of circa £810m.
- › The replacement of Structural Funds by the Shared Prosperity Fund (SPF) is welcome. However, there is a significant level of uncertainty around the SPF including its objectives, and the level of funding which will be allocated to Scotland. Nevertheless, this an opportunity to develop a new system tailored to the different needs of the UK regions.
- › Within the SPF, the RSE recommends that the current level of funding that Scotland receives is maintained and how these funds are distributed falls under the responsibility of the Scottish Government. There is scope to rethink the way money is distributed, the intended recipients and the desired outcomes. It is recommended that the Scottish Government use a mix of indicators such as Gross Domestic Product (GDP) and the Scottish Index for Multiple Deprivation (SIMD) to distribute funds, and that the new criteria for funding are clear and succinct.
- › There are several barriers within the current system which could be addressed in the development of the SPF. One of the largest is acquiring the resource and capacity, within both central and local government, to develop and administer the new system. The level of compliance must be reviewed and the RSE would favour a sophisticated approach to compliance which would ensure compliance would be proportionate to the size of the project. It is important that the new approach is inclusive and that there is a significant level of stakeholder engagement to help reduce potential barriers for investment in projects.
- › Levels of administration will be reduced if the approach and processes are simplified. The SPF should not lose sight of the original purpose of the funds which is to reduce regional disparities. The distribution of funds could be tied to the wider economic and social policy of the Scottish Government. Therefore, using the Scottish National Performance Framework to monitor and evaluate funds and projects would be appropriate.
- › There is a level of uncertainty around the replacement of the Common Agricultural Policy (CAP) and how the SPF will relate to this. This needs to be considered as both will have a social element.

Summary

Introduction

- 1 The RSE welcomes the Committee's inquiry on Structural Funds post-Brexit and the opportunity to respond, particularly as it presents an opportunity to examine the current system and present recommendations on how to design and implement an improved system across Scotland and the UK.
- 2 As the Committee will be aware, the Society has been engaged in discussions around Brexit over the past three years. Through our EU Strategy Group the RSE has produced position papers since the Brexit referendum on areas including Constitutional Law and Government, Economics and Public Finance, Research and Innovation, Migration and Rights, and Environment^{1, 2}. These groups are continuing to work to inform and engage in the debate.
- 3 The RSE has produced responses to government consultations and parliamentary inquiries/call for evidence that have focused on Brexit. Last year the Society produced a response to the Committee on its inquiry into the Funding of EU Competences post-Brexit³ which is closely related to this response.
- 4 In producing this response, the RSE has drawn from members of the EU Strategy Group as well as the expertise from its Fellowship and other stakeholders. The response does not address the questions directly but covers each area in a general format.

Main Areas

Core Approach

- 5 Scotland has experienced relative success under the current Structural Funds arrangements as it received a level of funds that was proportionate to its population, which is more than it would have received through the EU distribution formula. This may be at the expense of regions in England. Indeed, some Local Authorities in England mounted a legal challenge against the UK Government arguing that the distribution of funds within the 2014–20 period should be reviewed as specific regions were significantly affected by a decrease in funding. Additionally, research carried out by the Conference of Peripheral Maritime

Regions (CPMR) suggests that the UK regions, including Scotland, will receive less through the SPF than they would have done had the Structural Funds continued to be accessible. In the fund period 2021–27 it is calculated that Scotland, as a region, would have received around £715m compared a maximum of circa £810m that she is currently due to receive in the 2014–2020 period.^{4, 5}

- 6 There is significant uncertainty on what will be included in the SPF and it is difficult to comment on the new fund until more information is published. The UK Government needs to clarify the SPF's objectives and outcomes, working with the devolved administrations and other key stakeholders to create a framework that works across the whole of the UK. The success of the SPF will depend on several policy mechanisms and levers around economic and social development as well as on strong intergovernmental relations.
- 7 The current system has a framework of decision making in which the main decisions are made at a central level, within the EU through the allocation and UK level for distribution of funds. It is expected that this pattern of decision making will continue as the UK Government will decide the level of funding and allocate the funds to the devolved administrations. In a joint letter with the Learned Society of Wales and Royal Irish Academy to the Secretary of State for Business, Energy and Industrial Strategy, we noted the intention of the SPF to *'tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind'* and considered it essential that the fund should be no less in value than the amount of EU Regional Funding that it will replace, with the present distribution (share and level) of EU expenditure between the four nations of the UK evolving according to need.⁶ This inquiry presents an opportunity to reiterate our view that the quantum available is not reduced, guaranteeing the continuation of the current level of funding. This would also ensure that the devolution settlement is respected.

1 Royal Society of Edinburgh, July 2017, 'RSE Publishes Advice on Brexit Challenges and Opportunities'. URL: <https://www.rse.org.uk/rse-publishes-advice-brexit-challenges-opportunities/>

2 Royal Society of Edinburgh, September 2018, 'Brexit and the Environment in Scotland'.

3 Royal Society of Edinburgh, August 2018, 'Common UK Frameworks'.

4 SPICe, September 2018, 'European Union funding in Scotland', pg21–24.

5 The Conference of Peripheral Maritime Regions, January 2019, 'UK Entitled to €13bn Regional Funding if it Remains in the EU'.

6 Royal Society of Edinburgh, Learned Society of Wales & Royal Irish Academy, (2019), 'Three Academies Letter'.

- 8** The level of funding which will be allocated to the devolved administrations will be set at UK Government level but the RSE would expect and recommend that funds for Scotland are handled and distributed by the Scottish Government. There are a number of defects in the way Structural Funds are distributed, not least that some agencies have been unable to spend all the money (see paragraph 12). The change to the SPF gives an opportunity to rethink the way the funds are distributed, the intended recipients, and the desired outcomes. Consideration should also be given at this stage to how the impact of the funds will be measured (see paragraph 17). It will be important that this process is inclusive and that the government works with the agencies and related stakeholders.
- 9** For example, the RSE understand that the Heritage Lottery Fund operates with a framework that has a main UK Managing Committee which acts as the main decision-making level supported by sub-levels that operate within the regions controlling the allocation of funds across the devolved areas. This model or a similar model could be used in the context of the SPF across the UK.
- 10** The focus of the Structural Funds is to reduce regional disparities across the EU, and over time they have been effective in doing so in Scotland. However, regional disparities remain, and the SPF should not lose sight of the original focus. The funds should be used to address sub-regional disparities and differences that are often more evident in rural areas. Consequently, the RSE would recommend that a new, place-based system operates with a level of flexibility that considers and addresses regional and sub-regional disparities.
- 11** It is expected that the Scottish Government will distribute most funds through a needs-based approach using indicators such as GDP. The RSE would note that other indicators such as the SIMD could be used. A mix of indicators would be effective in addressing sub-regional disparities. Allocation of funds must involve a combination of economic data, social factors and demography.
- 12** In the 2014-20 programme there are examples (e.g. within the Highlands and Islands) where not all the funds are spent because money has been routed through national bodies which have limited understanding and knowledge of the sub-regions and their specific needs.
- 13** For instance, the European Regional Development Fund (ERDF) Green Infrastructure Intervention, was an example of this. Its initial eligibility criteria were that population areas must comprise 10,000 or more and be in the 20% most deprived areas of Scotland according to the SIMD. Although a valid approach for urban areas in the central belt, this meant that only a very limited number of communities in Inverness and the Inner Moray Firth would be able to participate – none of the more sparsely populated, rural or island communities qualified, despite the need for investment of that type.
- 14** This illustrates the multi-regional needs of Scotland and how they are different from each other, particularly in the Highlands and Islands. Therefore, it is important to consider and value the multi-regional needs of Scotland and enable local decision making, using a mix of indicators as only using indicators such as SIMD may not fully capture the multi-regional needs and accurately inform decisions.
- 15** A needs-based approach is the basic instrument to distribute funds, but the Scottish Government could consider the possibility that some of the funds could be distributed in a more competitive and strategic manner. This could involve the Local Authorities bidding for funds either individually or through partnerships. We recognise that some Local Authorities will be better equipped to bid for funds than others, as is evident in the case of City Region Deals. Bids might be required to involve larger local authorities working with smaller ones to boost inter-regional cooperation.
- 16** Additionally, interregional cooperation between regions in Scotland and elsewhere in the UK, particularly England and Northern Ireland, could be facilitated through the funds, but this would need to be agreed by the devolved administrations and the UK Government. We recognise that funds are limited and that there is already cross border interaction through initiatives such as the Borderlands Growth Deal, so it may be useful to assess the success of these initiatives first.

- 17** Indicators, such as GDP and other measurements like SIMD, will be important in the distribution of funds, but the funding criteria will also be important. The criteria should be clear, succinct and involve a level of future proofing, as there is a risk that projects may not deliver identifiable outputs or will become obsolete. For instance, there are examples within the City Region Deals in which projects are favoured that either don't present a significant economic or social value and/or are obsolete due to changes in technology and social trends. The criteria must be clear in order to ensure that the funds are not wasted or become a substitute for other sources of investment. The criteria should ensure that the principle of additionality, that is attached to the Structural Funds, is maintained in the new system across the UK. This will help reduce the risk of funds being used as a substitute for other government funding.
- 18** Evaluation will be important to assess effectiveness and identify poor performance of projects and the reasons behind this. The RSE would recommend that assessment of SPF spending occurs at Level 3 of the Nomenclature of Territorial Units for Statistics (NUTS). This level of data assessment is carried out at a local level within 23 regions across Scotland and takes fully into account the economic and social context of the regions. Assessment and evaluation projects at a smaller level, for instance within communities, may not be the most effective method and it would require significant resource. There is a possibility that assessment could be carried out in the City Region areas which bring together urban and rural areas which focus on strategic outcomes.
- Barriers to Funding Projects**
- 19** The cessation of cohesion funds and the beginning of the SPF presents an opportunity for both UK and Scottish Governments to develop a new framework designed to eliminate as many barriers to funding as possible. Therefore, addressing the barriers that currently exist in order to improve the design and operation of the new programme will be important as will identifying any potential barriers that could develop within the SPF.
- 20** The current approach through the lead partner is inflexible and doesn't help either cooperation and collaboration across organisations or the design and delivery of projects. The new fund ought to promote synergy between projects which will help achieve more strategic outcomes. Furthermore, the criteria for the funding of projects should be revised. Clear and succinct criteria should be a priority, for complexity in itself may act as a barrier to applying for funding.
- 21** Additionally, the level of compliance required from Local Authorities and government agencies, and the degree of regulation to which they are subject, have increased significantly within the current system. This needs to be addressed and processes simplified, or potential bidders may be deterred, even when their proposals are strong. There needs to be a sophisticated approach to compliance and evaluation based on the level of funding a project receives. The level of compliance and evaluation should not be the same for every project no matter the size; it should be proportionate.
- 22** One of the biggest difficulties for the new system is the time and resource that are required to develop a new approach and mechanisms for the SPF. There is limited time to develop the mechanisms and framework behind SPF and this is creating significant uncertainty around the changes. The process of development should have started long before now, so there is a need for urgency to develop a framework and establish certainty around the SPF. Also, the resource capacity of Local Authorities, government agencies and other institutions is a concern. Over the years of the Structural Funds, expertise, and experience particularly in the allocation of funds, which will be critical to SPF, may have been lost as this is currently controlled at an EU level. This will need to be rebuilt to cope with the demands of the SPF. Moreover, the resource capacity of all partners to handle the administrative demands may also become a barrier to the future funding of projects.

- 23** The funding and success of projects will be determined by a range of factors. Stakeholder input into the development of projects will be important and planning the development without this would marginalise communities and stakeholders and would present a barrier to accessing the new fund. Planning must include stakeholder engagement to ensure the projects are what the area needs, help unlock other opportunities and achieve outcomes. The partnership approach, which has been reduced to an extent in the current lead partner structure, is still relevant.
- 24** The RSE are aware that it is difficult to coordinate activities across funds, and wider stakeholder engagement could facilitate this. For example, Highlands and Islands Enterprise and the University of Highlands and Islands recently worked together to develop a capital investment project through the ERDF Innovation Infrastructure priority. To prepare the application, it was necessary to take a partnership approach to navigate roles and responsibilities that went beyond the lead partner model. After this was agreed, the project was able to cooperate with wider regional partnerships including Highland Council, NHS Highland and the Inverness City Region Deal. Therefore, the RSE would urge that future models should aim to encourage more coherent means of delivering programme/project activities in coordination and cooperation.
- 25** It is important that there is an acceptance of the risk that projects will fail and that this is used as opportunity to learn. If the process is too risk-averse, there may be a reluctance for Local Authorities, partnerships and/or agencies to distribute funds to projects.

Administration

- 26** As mentioned above, the level of administration has significantly increased due to requirements on compliance and sometimes it seems that compliance has more importance than delivering outcomes. Therefore, a change which can be incorporated easily into the new process would be to ensure that the level of administration required, whether compliance or otherwise, is proportionate to the size of the project and level of investment.
- 27** It is important that the SPF does not lose sight of the original purpose of reducing regional disparities, but this is an opportunity to tie the

funds more closely to economic policy and other policy evaluation mechanisms. Therefore, using the Scottish National Performance Framework to help monitor and evaluate funds and projects would be welcomed and should help to tie the funds closely to overall government objectives and priorities. This will ensure that increased stakeholder and community engagement around projects will occur in respect of the key government objectives and priorities.

- 28** The RSE would encourage changes which make the process more responsive and open, particularly over funds and compliance. Additionally, if, as we recommend, a more risk-based approach is adopted, we would expect the requirements around the administration of funds to be simplified.
- 29** While it is recommended that assessment on the effectiveness of funding (if it has achieved the desired outcomes or added value) should be undertaken at NUTS3 level, we recognise that there is no one solution to the administration of the evaluation and assessment of projects and would recommend that this opportunity is used effectively to analyse all possible processes.

Other Issues

- 30** The RSE notes that within the SPF there is no reference to the successor to CAP, and how the fund would interact with CAP. This creates more uncertainty around this as the CAP does include social funds, and therefore governance interaction will be important.
- 31** The distribution and allocation of SPF and the successor to the CAP in Scotland will be determined through discussions between UK and Scottish Government. Therefore, the negotiating framework of the Scottish government will be important.
- 32** Discussions may be facilitated through the arrangements around Common UK Frameworks. This has yet to be developed so it is unclear what the framework of structures for intergovernmental relations will be. It is important that this is developed, and that the Scottish Government is kept involved in discussions to inform Whitehall of the Scottish context.

Conclusion

- 33** Currently there is a level of uncertainty around the SPF on how it will be allocated and distributed, how intergovernmental relations will facilitate it and how it will interact with the replacement for CAP. It will be for the UK Government to work with the devolved administrations and other stakeholders to create a format and process which will establish a level of certainty around the funds.
- 34** Despite the uncertainty, there is an opportunity to shape the SPF in a way which will be an improvement on the current system. Therefore, the RSE would recommend:
- The UK Government should work to develop the SPF to create certainty around the framework and allocation of funds. More information needs to be provided on how the SPF connects to the CAP.
 - Within this framework it is important that Scotland receives the same proportion of funding as it did from the Structural Funds. While distribution of the funds within Scottish regions should be the responsibility of the Scottish Government, within the distribution the principle of additionality, which is included in the Structural Funds, should remain to ensure funds are not used as a substitute for other investment.
 - The UK and Scottish Governments should work to eliminate as many barriers to funding projects as possible, such as making compliance and assessment proportionate to investment.
 - Within Scotland, the distribution of funds will be critical; the Scottish Government should, therefore, consider new ways to distribute funds through a place-based approach using a wide range of indicators of economic and social disparity.

Additional Information

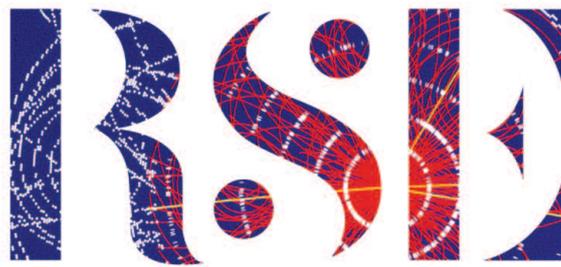
This Advice Paper has been signed off by the General Secretary of the RSE.

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