

THE REPLACEMENT OF EUROPEAN STRUCTURAL FUNDS IN SCOTLAND DISCUSSION REPORT

Introduction

- 1 The Royal Society of Edinburgh (RSE), Scotland's National Academy, was pleased to have the opportunity to host two thematic roundtables in January 2020 on skills and innovation as a contribution to the Scottish Government's consultation on *The Replacement of European Structural Funds in Scotland Post EU-Exit*.¹ The roundtables build on our response to the Scottish Parliament Finance and Constitution Committee on Structural Funds² and our shared interests with the Learned Society of Wales and the Royal Irish Academy.³
- 2 The RSE roundtables brought together representatives from Scottish Government, skills and enterprise bodies, universities and colleges, business and industry, knowledge exchange organisations, among others to discuss how successor UK funding to European Structural Funds could be developed and used to support innovation and skills' developments in Scotland. The discussion, chaired by Professor David Bell FRSE, RSE Vice-President and Chair of the steering group overseeing the Scottish Government consultation, was held under the Chatham House Rule. The roundtable discussions represent the RSE's contribution to the consultation.
- 3 The discussions are summarised below along with the key points identified. This report has not been endorsed by the meeting participants; and unless specified, it does not necessarily reflect the views of the RSE. The RSE looks forward to working with both the UK Government and the Scottish Government as the plans are developed for the replacement funding.

Context

- 4 Under the current seven-year 2014-2020 European Structural Funds programme, Scotland benefits from over £780m of funding through the European Regional Development Fund and the European Social Fund. Having left the EU, the UK will no longer receive European Structural Funds following the end of the current programme in December 2020. The UK Government has stated its intention to provide successor funding to European Structural Funds through the establishment of a 'UK Shared Prosperity Fund' but without detail as yet on the scale, objectives and allocation of such funding. There is therefore an opportunity to develop a new system sufficiently nuanced to meet the distinctive needs of UK regions. In this context, the Scottish Government has consulted on how UK replacement funding could best meet the needs of Scotland's people, communities and businesses.

Key themes from both roundtables

Principles for successor funding

- 5 The RSE considers it important that the development and administration of successor funding should respect the devolution settlement with strategic guidelines agreed between the UK Government and the Devolved Administrations; that responsibility for the detailed design and delivery be transferred to the Devolved Administrations and their partners; that the funding allocated to Scotland should be no less in value than the EU Regional Funding it replaces; and that allocation of overall funding initially reflects the present distribution (share and level) of EU expenditure between the four nations of the UK and should evolve according to need.

1 <https://www.gov.scot/publications/replacement-european-structural-funds-scotland-post-eu-exit/>

2 https://www.rse.org.uk/wp-content/uploads/2019/04/AP19_04.pdf

3 <http://www.rse.org.uk/wp-content/uploads/2019/03/3-academies-letter-March-2019.pdf>

Added Value

- 6 While they have been an important and sustainable source of funding, European Structural Funds in Scotland are relatively small compared to domestic public spending commitments. Successor funding in Scotland should therefore operate on a similar basis whereby it is sustained and used to complement and add value to core public spending, particularly with a view to reducing regional inequalities and supporting inclusive economic growth. The importance of increasing support for lifelong learning was emphasised. In no way should successor funding be used as a replacement for core funding.
- 7 The design of a new approach offers scope to rethink the way successor funding is distributed, including the desired outcomes, the intended recipients and the evaluation requirements, to ensure it meets the distinct needs of different parts of Scotland. Given the additionality of the funding, it was suggested that it should be used in more original ways, which could include, as examples, supporting social innovation in public health and climate change, or supporting Randomised Control Trials (RCTs) to gauge the effectiveness of alternative interventions. The development of successor funding offers the potential to de-clutter the support landscape, particularly in relation to enhancing innovation.

Evaluation

- 8 Evaluation is crucially important to develop an informed understanding of the impact of the funding, especially the extent to which interventions have been successful, and how they can be improved. Despite some research having been undertaken, there was an acknowledgement during the roundtables that there is not as much data and information available as there should be to properly evaluate the impact of European

Structural Funds in Scotland.⁴ It can also be challenging to disaggregate the impact of structural funds from other activities and funding streams.

- 9 However, while it can be difficult to ascertain the full impact of European Structural Funds, in the absence of such funding, the likelihood is that few, if any, of the funded projects would have proceeded on the same scale, if at all.⁵ There was also recognition that as well as economic productivity, future funding should be assessed more broadly, including the impact that it has on health and wellbeing and the environment. In developing approaches to evaluating the impact of successor funding, lessons should be drawn from Audit Scotland's recent report on Scotland's City Region and Growth Deals which indicates that while City Deals have been positive for Scotland's economy, the Scottish Government needs to develop arrangements for measuring the impact of the overall deals' programme and whether it has achieved value for money.⁶

Design and administration of replacement funding

- 10 The distribution of successor funding in Scotland should be under the control of the Scottish Government. There are several government economic policies that the funds could be aligned or connected to. Given its importance, the distribution and evaluation of funding should closely align to Scotland's National Performance Framework. Consideration will need to be given to the extent to which the successor funding in Scotland links to the UK Industrial Strategy and its Challenge Fund and/or is aligned with European objectives.

4 See for example: Sara Davies, John Bachtler, Frederike Gross, Rona Michie, Heidi Vironen and Douglas Yuill, *The Impact of Structural Funds Programme in Scotland 1994-2006*, European Policies Research Centre, University of Strathclyde, July 2007

<https://www.eprc-strath.eu/public/dam/jcr:cef38f10-7033-4788-a8fb-148e57dde59f/EPRP%2060.pdf>

Sascha O. Beckera, Peter H. Egger, Maximilian von Ehrlich, *Effects of EU Regional Policy: 1989-2013*, *Regional Science and Urban Economics*, Volume 69, March 2018, Pages 143-152

<https://www.sciencedirect.com/science/article/pii/S016604621730443X>

5 EU Structural Funds in Scotland, SPICe, April 2019

<https://sp-bpr-en-prod-cdnep.azureedge.net/published/2019/4/10/EU-Structural-Funds-in-Scotland/SB%2019-19.pdf>

6 Scotland's City Region and Growth Deals, Audit Scotland, January 2020

<https://www.audit-scotland.gov.uk/report/scotlands-city-region-and-growth-deals>

- 11** The way in which the successor fund is developed and allocated at the UK level will have consequences for the allocation and use of funding in Scotland, particularly where it relates to devolved areas of policy, including skills and apprenticeships. For example, in 2017 the UK Government without prior consultation with the Scottish Government introduced the UK-wide apprenticeship levy, which applies to all UK employers with annual pay bills in excess of £3m. The way in which the levy is used to support skills and apprenticeships in England and Scotland is significantly different. Whereas levy paying employers in England can access the fund for training of apprentices through an apprenticeship service account, the Scottish Government has invested Scotland's share of the levy (around £230m annually allocated via the Barnett formula) to support skills, training and employment for all, and in the Flexible Workforce Development Fund for levy paying employers. This example emphasises the importance of maintaining constructive relationships between the UK Government and the Devolved Administrations in developing the successor fund and when introducing new policy levers to ensure that the needs of all parts of the UK are considered, and to avoid the potential for unintended consequences.
- 12** Where possible, the successor funds in Scotland should be administered via existing structures, agencies and bodies, and avoid the creation of new and potentially costly administration infrastructure. National bodies, including the skills and enterprise agencies should work closely with local delivery partners to ensure that localised needs and priorities are met.
- 13** The current requirement for match funding can constrain the ability of local authorities to bid for European Structural Funds, particularly given the level of cost savings that local government has had to make. Connected to this, local authorities and other parts of the public sector do not have access to previous levels of staff resource, leadership capacity and specialist expertise, particularly that which is required to support Scotland's small and medium-sized enterprises (SMEs) to innovate.
- There was also acknowledgement among those who have received European Structural Funds that they can be bureaucratic and complex to access, administer and monitor compared to domestic programmes.
- 14** The replacement of Structural Funds provides an opportunity to look at these aspects afresh, including de-risking investment to encourage local government and SME involvement, exploring the potential to leverage increased financial support from employers, and keeping the administrative arrangements for future funding as light touch as possible while ensuring appropriate oversight and evaluative functions. Consideration will also need to be given to the design of the application process for funding and whether it can be equalised to ensure that the best ideas and concepts rather than the best applications are funded.

Summaries of Innovation and Skills' Roundtables, 30 January 2020

Skills

Supply and demand for skills

- 15** The meeting discussed how successor UK funding to EU Structural Funds could be used to support skills development in Scotland. It was recognised that Structural Funds have provided a sustainable and valuable source of additional funding for skills development in Scotland, including investment in Modern Apprenticeship schemes.
- 16** The importance of aligning skills supply and demand was recognised, although it was acknowledged that it can be very challenging to predict future skills' demands. It was suggested that the successor funding could be used to help the Scottish labour market (both employers and individuals) respond to changing skills' demands, including that expected as a result of increasing automation. However, as well as meeting future skills' demands, the need to address current skills' gaps was emphasised.

17 In this context, it was recognised that employers as well as national and local government and their agencies have a responsibility to support education and training needs. European Structural Funds must be match funded, normally by the public sector. Given concern about the capacity of the public sector to co-invest, particularly local authorities, it was suggested that the replacement funding could be used to leverage financial support from employers.

‘Skills’ comprise a range of different classifications, including:

- 1) Transferable skills, including adaptability, resilience, critical thinking and collaboration.
- 2) Technical and/or sector-specific skills
- 3) Systems leadership and management skills

Added value

18 The general view expressed was that the successor funding should be invested and targeted to make an added value contribution, and that it should not be used to replace existing core funding. As part of this, it can be used to respond agilely to emerging labour market developments.

It was suggested that the fund should focus on:

- 1) Investing in people and areas furthest from the labour market; and
- 2) Help people to upskill to meet new and future skills needs.

19 This is in line with the current priorities of the European Regional Development and European Social Funds which seek to address regional disparities, tackle inequality and improve employment opportunities. These points also bring into focus the need to increase the support for lifelong learning opportunities in Scotland in a context where reducing youth unemployment among 16-24-year olds has been prioritised.

20 The financial support from the European Social Fund has enabled Skills Development Scotland to deliver degree-level Graduate Apprenticeships to support economic growth in Scotland. There was an acknowledgement that this has been an

important development that may not have been possible without the financial support from European Structural Funds and should be continued under successor funding.

Evidencing impact

21 It is important to be able to robustly assess the impact of both the existing Structural Funds programme in Scotland as well as ensure that evaluation is a central consideration when bringing forward successor funds. Despite some research having been undertaken, there was an acknowledgement at the roundtable that there is not as much data and information available as there should be to properly evaluate the impact of Structural Funds in Scotland.⁷ It can also be a challenge to disaggregate the impact of Structural Funds from other activities and funding streams. While it can be difficult to ascertain the full impact of European Structural Funds, in the absence of such funding, the likelihood is that few, if any, of the funded projects would have proceeded on the same scale, if at all.⁸

22 It was commented that the European Structural Funds have been put to best effect where they have supported partnership working with shared objectives coupled with flexibility in deployment to take account of very different localised needs.

23 While successor funding can strengthen economic productivity in Scotland which is in line with UK ministerial statements on the objective of the Shared Prosperity Fund⁹, productivity is increasingly being considered more progressively, including health, wellbeing and environmental imperatives.

24 As the successor funding is expected to be additional to core domestic funding, consideration should be given as to whether it can be deployed in more innovative ways. For example, the funding could be used to support randomised control trials (RCTs) to evaluate the impact of different interventions aimed at skills’ development. However, the learning from RCTs may not be suitable for universal roll-out due to the specific needs of different localities.

⁷ See for example: Sara Davies, John Bachtler, Frederike Gross, Rona Michie, Heidi Vironen and Douglas Yuill, The Impact of Structural Funds Programme in Scotland 1994-2006, European Policies Research Centre, University of Strathclyde, July 2007

<https://www.eprc-strath.eu/public/dam/jcr:cef38f10-7033-4788-a8fb-148e57dde59f/EPRP%2060.pdf>

Sascha O. Beckera, Peter H. Egger, Maximilian von Ehrlich, Effects of EU Regional Policy: 1989-2013, Regional Science and Urban Economics, Volume 69, March 2018, Pages 143-152

<https://www.sciencedirect.com/science/article/pii/S016604621730443X>

⁸ EU Structural Funds in Scotland, SPICe, April 2019

<https://sp-bpr-en-prod-cdnep.azureedge.net/published/2019/4/10/EU-Structural-Funds-in-Scotland/SB%2019-19.pdf>

⁹ James Brokenshire MP, Secretary of State for Housing, Communities and Local Government, 24 July 2018

Allocating replacement funding

- 25** There was support for the view that national level agencies and bodies, including Skills Development Scotland and the Scottish Funding Council, which have existing responsibility for post-school education and training provision, should have overall responsibility for the distribution of successor funding aimed at skills development. They would be expected to work closely with local delivery partners to help ensure that localised needs and priorities are met. Similarly, there was support for the view that wherever possible existing structures and frameworks should be used to allocate funding to avoid the creation of new and potentially costly administration infrastructure for allocating the funds. It was suggested, for example, that Developing the Young Workforce networks could be used to administer replacement funding to support skills development.
- 26** The establishment of successor funding could help highlight the need for more coordinated and well-defined regional development plans in the UK and Scotland. As part of this, consideration should be given to learning from the City Region Deals, which are based on agreements between the Scottish Government, UK Government and local government, and designed to bring about long-term strategic approaches to improving regional economies, with each deal tailored to its city region. However, it was emphasised that successor funding to support skills in Scotland will need to look beyond cities since that is where many of the areas at risk of being left behind lie. This suggests the need for area strategies at different spatial levels. There was also concern that a City Region Deal approach can result in funding primarily going to those organisations that have the resources and experience needed to bid for funds.
- 27** There was acknowledgement among those who have received European Structural Funds that they can be bureaucratic and complex to access, administer and monitor compared to domestic programmes. Their replacement provides an opportunity to look at this afresh, keeping the administrative arrangements for future funding as light touch as possible while

ensuring appropriate oversight and evaluative functions. The UK Government has indicated that replacement UK funding will adopt a simplified approach.¹⁰

The UK's diverging skills' agendas

- 28** A key issue raised related to divergent skills' policy throughout the UK and the implications this has for the maintenance of a UK labour market, and for the disbursement and use of successor UK funding to replace Structural Funds. The application of the UK apprenticeship levy was provided as an example of how a lack of communication between the UK Government and the Devolved Administrations and divergent skills' policies can result in unintended consequences. Despite skills and apprenticeships being a devolved area, the UK Government proposed the UK apprenticeship levy in 2015 without prior consultation with the Scottish Government. The levy was then introduced in 2017. While the levy applies to all UK employers with annual pay bills in excess of £3m, the ways in which it is used to support skills and apprenticeships varies between England and Scotland. In England employers can access the funding for training of apprentices through an apprenticeship service account. Scotland's share of the UK apprenticeship levy (estimated at around £230m annually) is allocated to the Scottish Government under the Barnett formula. The Scottish Government has chosen to invest Scotland's share to support skills, training and employment for all, and in the Flexible Workforce Development Fund for levy paying employers. This specific example brings into focus the impact on employers with cross-border business interests as they will be subject to two different administrative systems. These points serve to demonstrate that the way in which the successor to EU Structural Funds is developed and allocated at the UK level will have consequences for the allocation and use of replacement funding in Scotland. It also makes clear the importance of maintaining constructive relationships between the UK Government and the Devolved Administrations in developing the fund to ensure that it is able to meet the needs of all parts of the UK.

Innovation

Current Funds and Innovation Landscape

- 29** The current European Structural Funds programme has objectives aimed at stimulating business innovation, in terms of both new product development and processes, including among small and medium-sized enterprises (SMEs), which account for 99% of Scotland's private sector business base. The successor funds must therefore develop a strategy to support SME engagement in the innovation landscape, including with innovation centres, universities, colleges, larger private companies and public sector organisations.
- 30** It was recognised that the existing business landscape in Scotland is cluttered and that the development of successor funding provides an opportunity to address this, ensuring that the new funding mechanism provides added value, including scaling-up of initiatives and projects that have demonstrated notable success. There was also support for the view that in order to avoid adding layers of potentially costly bureaucracy and structures, as far as possible the new funding should be distributed via existing networks, including those overseen by Scotland's skills and enterprise bodies.
- 31** Reference was made to the importance of effective and collective leadership, especially at the regional level, to support innovation. Industry led and privately funded, including long term investment from the Wood Foundation, Opportunity North East was given as an example of how the private and public sectors have successfully come together to diversify and innovate the regional economy.¹¹ However, it was acknowledged that these arrangements and partnerships have been driven by the region's particular economic circumstances, and are not necessarily capable of being replicated in other parts of the country or at the same scale.
- 32** It was recognised that sustained programmes and interventions, including the RSE's Enterprise Fellowships, have helped to support innovation in Scotland. The RSE Enterprise Fellowship programme, which has operated for more than

20 years, has supported entrepreneurial researchers and innovators to grow their ideas into promising businesses. An independent evaluation found that the Enterprise Fellowship scheme has made a significant economic impact. For every £1 invested the programme is estimated to have generated £6 for the Scottish economy. Over 200 businesses have been created since the scheme started. Despite the tech-led nature of these young businesses, 81% were still operating after five years which is almost double the national average for equivalent companies (45%).¹²

Possible Aims and Areas of Funds in Supporting Innovation

- 33** The UK Shared Prosperity Fund is within the brief of the UK Ministry of Housing, Communities and Local Government. This suggests that the fund will primarily be used to reduce economic disparities through investment in infrastructure and skills development at local government level. While there was an acknowledgment that the UK Government has stressed the importance of investment in research and innovation, the Ministry of Housing, Communities and Local Government may not be best placed to oversee the fund as far as business and innovation support is concerned. The evolving situation will need to be monitored closely to ensure the deployment of future funding meets Scotland's distinctive needs.
- 34** An emphasis was placed on the role of the successor funding in supporting business and leadership capacity and skills in Scotland, especially among SMEs, to increase innovation and productivity. Some participants indicated that they have been using the European Structural Funds in this way and it is important that this can be sustained through the deployment of the new funding. There was recognition that Scotland has substantial strengths within its business schools but there was a sense that these are not as well connected as they should be to Scotland's SME base. It was suggested that the new funding could be used to support a business innovation and leadership hub.

¹¹ <https://opportunitynortheast.com/>

¹² Biggar Economics, (2019). 'Royal Society of Edinburgh Enterprise Fellowships – Evaluation and Economic Impact Assessment'. <http://www.rse.org.uk/wp-content/uploads/2019/10/RSE-Enterprise-Fellowship-Final-Report-13.8.19.pdf>

- 35** Given the cluttered business support landscape in Scotland, which can result in SMEs targeting and accessing relatively small pots of funding, the successor fund could be used to capitalise and sustain a Scottish Innovation Fund of sufficient scale to transform Scotland's SME innovation landscape.
- 36** Consideration will need to be given to the relationship between the successor funding and the UK Industrial Strategy and its Challenge Fund, especially as the Industrial Strategy focuses on productivity growth while reducing regional economic disparities has been the focus of Structural Funds. Care will need to be taken that the replacement of Structural Funds does not result in fewer Scottish organisations bidding for Challenge Funds.
- 37** It was recognised that resource, expertise and skills have been lost from the public sector, particularly from within local authority economic development teams. As a consequence, local authorities are less well equipped to support the innovation landscape and bid for funding, especially where it requires a matched financial contribution, as is the case with European Structural Funds. The development of successor funding provides an opportunity to streamline the application process and compliance requirements.
- 38** In connection to capacity and resource issues within the public sector and to identifying new ways of working, reference was made to 'Social Bridging Finance', which is a new grant funding model being developed and piloted by the Robertson Trust¹³. This aims to support sustained public service innovation through building partnerships among the public sector, third sector and independent funders.
- 39** Reference was made to the importance of social innovation, particularly in helping to address complex, societal issues including those related to health and wellbeing and to climate change. It was suggested that the successor funding could be used to facilitate collaborative cross-sector partnership, bringing together businesses, universities, colleges, social enterprises and the public sector. This approach could help expand partnerships and encourage input from groups and organisations who otherwise would not have the capacity or experience to bid for funding.

¹³ <https://www.therobertsontrust.org.uk/social-impact/innovative-funding/social-bridging-finance>

Additional Information

Any enquiries about this advice paper should be addressed to Paul Stuart, Policy Advice Officer (pstuart@therse.org.uk).

Responses are published on the RSE website (<https://www.rse.org.uk/>)

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