

Appendix 1

The Consultation Questions and Answers

The following lists the Scottish Government's consultation text in bold and proposed response in italics below.

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?

One of the core principles of EU Cohesion funds was an aim to reduce economic and social disparities and to promote sustainable development in the poorer regions a replacement to EU funds should keep this as a core principle.

The fund should seek to address the long-term inequalities as evidenced by the South of Scotland NUTS 2 data. The fund should do this by targeting funds to areas and regions of greatest need and providing greater local decision making and flexibility to those areas. The current categorisation of "less developed" status is helpful in this regard and a similar prioritisation should be included.

The precise blend of measures to support will vary from region, and local authority area and it is therefore important that the national framework for the funds includes substantial scope for regional and local determination of priorities with delegated authority and decision making as close to communities as possible. Recent EU structural fund programmes have become very prescriptive and top down in term of the range of activities eligible for funding such as the restrictive targeting on eligibility for the Social Inclusion and poverty SI and this opportunity should be taken to widen the scope, in particular in the area of capital and infrastructure investment in places.

The fund should ensure that the annual budget for replacement funds in Scotland is no less in real terms than the EU and UK funding streams it replaces. It should take into consideration the level of need within the South of Scotland NUTS 2 area and that if the funding package was still within Europe the statistics would evidence that the South of Scotland area would receive significantly more than in previous funding programmes.

The fund should adopt at a minimum, a 7-year cycle to facilitate long term planning and to secure certainty, continuity and sustainability.

The fund should focus on medium and long term objectives relating to inclusive economic growth and focus on outcomes linked to inclusive growth and not just outputs.

In summary the fund should seek to:

- Focus on reducing economic and social disparities

- Focus on regions with the greatest need evidenced by GVA
- Increase the principle of subsidiarity and facilitate decision making at region and local authority level.
- Provide multi annual funding
- Commence from January 2021
- Have increased flexibility and ability to fund a wider range of activity
- Have clear additionality to other funding
- Reduced bureaucracy and deliver proportionate audit procedures
- Focus on outcomes and longer term objectives
- Provide increased intervention and scope to Regions most in need

An example of the final point would be support for decontamination and investment in business infrastructure specifically in Regions of greatest need.

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

EU funding programmes have been prescriptive on investment priorities at a micro spatial level for example focusing on participants of deprived SIMD areas including the necessity to locate projects within deprived areas. This was impractical and hindered the strategic aim of reducing inequalities at community, local authority or region level.

It is important that spatial targeting of funds is considered however it requires to be at a level to allow flexibility and assist in delivering strategic outcomes. As an example the GDP figures at a NUTS 2 level provide a compelling evidence for increased funding to the areas with greatest disparity to the EU or UK average.

In November 2019, the European Conference of Peripheral Maritime Regions (CPMR) (an influential group in EU circles) published a report <https://cpmr.org/cohesion/cpmr-analysis-uk-to-miss-out-on-e13bn-eu-regional-funding-after-brexite/23009/> which looks at the updated GDP figures for the UK's NUTS2 statistical regions. The report highlights the stark regional inequalities in the UK. The difference between Inner London West, the richest NUTS2 region in the UK with a regional GDP average of 623.7% of the EU average, and Southern Scotland, the UK's poorest region with a regional GDP of 63.7% of the EU average, is particularly striking.

There is a need for a new Regional policy which aims to build on the strengths of European Cohesion Policy with its focus on tackling regional economic imbalances and issues at NUTS2 level. This approach is important for recognising the economic problems of the South of Scotland NUTS 2 area. These aims should be underpinned by the principles of interventions being required to focus on inclusive economic growth and sustainable development which aligns with the need to combat climate change

A priority of this funding should be the NUTS2 regions such as Southern Scotland that require additional support for the purpose of tackling structural challenges arising from geography,

population imbalance, and low wealth creation. That means supporting strategic and holistic regional economic programmes at scale rather than supporting individual elements.

Place is an essential element of this, so key stakeholders within Southern Scotland NUTS2 area need to be empowered to make their own decisions on projects to be supported. The funding assistance needs to be designed in such a way that resources can be applied flexibly to respond to the particular needs of the area.

The level of funding, intervention rates and flexibility for projects should be greatest where need is greatest - in this way the spatial barriers can be addressed.

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

The levels of funding requires to be aligned and prioritised on a needs and evidence basis this requires to be at a Regional NUTS 2 level.

While the broad strategic aims of the fund should be set nationally the decision making and priorities require to be set at a local level by partners responding to local needs and challenges.

For example, although not formally part of this consultation, funding should continue for rural community economic development through replacements for the Leader programme which delivered strong Community Led Local Action Plans and involve community organisations in rural programs across Scotland through community consultation and decision making local action groups.

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?

At policy level, one of the key drivers of the fund at national level should be Scotland's Economic Strategy. In particular it is a stated commitment to pursue territorial cohesion. Recognition also should be taken of the role of regional and local economic strategies and the fund should be used to enable delivery of their aspirations on the ground.

One of the positive aspects of EU Structural Funds has been the principle of additionality and this should be maintained in the replacement framework. While there should of course be alignment with other funding streams, the fund needs to have its own distinct identity to ensure transparency as well as additionality.

Where the fund is being directly aligned at operational level with other funding streams it follows that it should deliver additional outcomes and results to those that would be achieved by these sources of funding alone.

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?

The funding should be aligned with both the UK and the Scottish economic strategy and its approach to regional economic development with a focus on those regions in need of economic convergence such as the Southern Scotland NUTS2 area.

This means recognising the profound differences in economic needs between regions and the economic needs of the different regions across the UK such as the Southern Scotland NUTS2 area. This emphasises the need for flexibility in support different regional economic programmes.

In so much as the UK Industrial Strategy recognise Place and local priorities, the Shared Prosperity Fund should recognise Place and local solutions. Not all regions can benefit from all sectors but local economic strategies identify local opportunities.

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

As noted, the purpose of EU Cohesion Policy is to reduce the significant strategic imbalances which exist between nations and the regions of those nations. If we are to optimise the potential of the weakest regions in the UK, then it is evident that much more needs to be done to bring these areas up to the level of others, eliminating those strategic deficits, which are at the root of regional economic and social inequality. Aligning with this core principle of Cohesion Policy is of value.

In practical terms aligning with EU cohesion policy may be useful in facilitating access to the 2021-27 generation of European Territorial Cooperation programmes. This is however dependent on of the UK "buying in" to these programmes.

Maintaining alignment of the funds with the EU could also limit the flexibility and inhibit the development of an innovative progressive Scottish fund and solution to long term issues and miss a key opportunity of the new fund.

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.

7. How could we best evaluate the success of this new fund?

The difference the fund makes will be how it benefits people and how this can be measured. Performance frameworks are good at setting statistical quantitative measures however previous EU programmes have been notoriously poor at estimating outcomes and impacts. The evaluation should reflect the National Performance Framework and also from SLAED regional indicators and local data sets.

The evaluation of the success though will be evidenced at a local level and the change delivered with people and within communities most in need. The only way to evaluate that is qualitative data gathering in communities and with participants. The collation of place based qualitative data can be gathered to evidence focused change and the specific benefits of the fund.

There also needs to be a recognition that there may be a significant time lag between activity and impact and other factors can affect the bigger statistical dates such as employment productivity and GVA. This is especially important if the support is aimed at tackling some of the long-term structural barriers to inclusive economic growth within Scotland. Therefore the development of proxy measures will be important to be able to demonstrate progress towards longer term outcomes.

As a longer term measure and accepting that the level of GVA within the NUTS 2 area should assist in setting financial allocations it should also therefore be used to assist in measuring long term changes. However a much broader set of measures and indicators will be needed to gauge progress in inclusive and sustainable growth terms.

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

The relevant parts of the National Performance framework should be those relating to:

- *We tackle poverty by sharing wealth and power more equally*
- *We live in communities which are empowered resilient and safe*
- *We are well educated and skilled*
- *We have a globally competitive entrepreneurial Economy*
- *We have thriving innovative businesses*
- *We value enhance and protect our environment*

However this all requires to be set in a priority of targeting those in areas of need and greatest inequality. Innovative companies, people and communities furthest from benefiting from a successful economy require most help not simple investing in areas or regions which have successful technology businesses and high skill levels.

A particular emphasis should be placed on using the fund to narrow the gaps in performance within Scotland on the relevant indicators within these headings.

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?

A less bureaucratic and proportionate approach compared to the current procedures should be taken where audit and evidence requirements are comparable to the scale of funds and risk. This change should encompass the application and monitoring of projects with a reduction in respect to the volume of data required particularly in relation to inputs. This should allow for more focus to be placed on outputs and results.

While it is the case that there has been a lot of interesting evaluation work done on EU structural Fund programmes in Scotland, very often the results have only become known at a time when it is too late to influence delivery. An attempt should be made to have more “real time” evaluations carried out.

Evaluation has also tended to be “top down” and the scope to introduce “peer to peer” monitoring and evaluation should be considered – recognising however that there would be resource requirements associated with such an approach.

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 level of funding including intervention rate should be set by need at a regional level using NUTS 2 and other statistical data. Additionally, reflecting the position of the Scottish Government in relation to the UK Government, the role of local government in the development and future administration of the Shared Prosperity Fund should be as partner, not merely consultee.

The balance between traditional ESF support and ERDF support requires to be reconsidered and to be flexible. The balance between infrastructure and SME business support and participant support has moved too far into participant support with too little addressing infrastructure and SME growth to provide quality jobs and enhance productivity.

A funding allocation for seven years should be made to each regional economic development programme. Some of this would consist of allocated funding to provide additional support to programmes and projects and the other part should be used for challenge funding to attract match funding and support innovation. The significance of the 7 year funding cycle is that experience shows that there are very significant advantages for delivery in having timescales which support longer-term thinking, and offer stability and predictability.

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

Lead partners working with the Scottish Government to deliver local, regional and national programs is an achievable delivery structure by streamlining some of the bureaucracy. The lead partner structure may vary from funding priority and regional partnerships but can deliver if allowed greater flexibility. This can be delivered within a single overarching governance and reporting structure but requires increased visibility which has been lost in the recent program.

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

The funding of Strategic Interventions to lead partners such as local authorities or strategic agencies across Scotland is fundamentally a good system and works well for many funds such as ERDF green Infrastructure or LEADER. However the administration systems and two stage application process and layers of claim process steps have weighed down very heavily on delivery. Clarifying and streamlining the lead partner responsibilities within a new programme should be achievable within a post BREXIT funding programme. Local Authorities and local economic partnerships can deliver wider ranging locally focused programs

The new fund should recognise that the low intervention rates of previous programmes has hindered delivery and effectiveness of programmes and a minimum intervention of 50% should be considered. It should be noted that the LEADER programme can consider intervention up to 100% and this local flexibility allows a match to be created on the assessed local need and available funds.

Greater funds should be directed at areas of greatest need but these areas also require higher levels of intervention and flexibility in the use of the funds to maximise the effect.

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

A new fund cannot be expected to be built just on existing resources and structures. Good examples of Community Led Local Action Plans exist through the LEADER programme and good decision making structures exist which can be adapted and reformed to help deliver on the local place and people agendas. This can and does take resources and capacity which should not be minimised and in LEADER up to 25% of the fund can be used for demand stimulation supporting communities to develop projects and administration.

Local authorities have a key role to play as champions of the community planning and community empowerment processes. However in order for them to discharge these roles effectively they need to be provided with the appropriate capacity and resources.

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

One of the greatest issues within the current and previous EU funding programmes is a lack of flexibility and ability to respond to changes in the economic circumstance and to allow regions and local authorities to develop individual solutions to the underlying local issues.

Also and in comparison to other funding programmes run by the Government the restrictions and compliance with EU Structural Funds has limited delivery. Programmes such as the Regeneration Capital grants, Town Centre Funds Investing in Communities all show that effective projects can be delivered with less onerous compliance and conditions and greater local determinations on expenditure. The issue with the two capital funds listed is that they are annual funding rounds which inhibit good community engagement and project development.