

European Structural and Investment Funds Inquiry

The Scottish city local authorities (Aberdeen City Council, Dundee City Council, The City of Edinburgh Council, Glasgow City Council, Highland Council, Perth and Kinross Council and Stirling Council) welcome the opportunity to respond to the Economy, Jobs and Fair Work Committee's European Structural and Investment Funds Inquiry specifically in relation to the "Future Programmes" questions. The Scottish Cities Alliance's (The Alliance) Operational Programme 2018-2022 identifies the opportunity for the Scottish Cities to work with the Scottish Government and other partners to inform post Brexit regional funding including new mechanisms to support the delivery of infrastructure and wider City and Growth Deal investments and the Scottish cities would like to work closely with this Committee on this objective¹.

Scotland's Cities represent 53% of the population of Scotland (2.86m) and are home to 55% of businesses, 61 % of jobs (1.51m) 66% of GVA (£84.6bn) and 63% of Scottish exports as well as world class universities². The scale of the Scottish Cities' contribution to the economy is critical to both the Scottish and UK economy. However, at present their contribution is low by international standards, demonstrating that they have unrealised potential, which it will be critical to unlock to create a successful post-Brexit economic landscape.

ESF and ERDF have played a significant role in developing Scotland's economy for many years with Inverness in Highland in particular benefiting from an enhanced intervention rate. The loss of such funding will have a significant impact on the ability of local authorities to deliver services and infrastructure initiatives that have supported growth in the economy. The Scottish Cities are of the view that future funding needs to enable the cities and their regions to continue to deliver services and infrastructure appropriate to their area and focus on reducing inequalities and disparities within and between regions, placing productivity and inclusive growth at the forefront of its goals and objectives. An approach which recognises the critical link between social and economic policy and which understands that investment in one realises dividends for the other is key to the future success of the Scottish Cities.

A detailed response to the specific future funding inquiry questions is provided in Annex 1, however, in summary many of the outcomes for future funding which the Scottish Cities seek, align with outcomes shared by the Core Cities (Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield)³. These include:-

- **Level of funding:** The focus should be on ensuring that the value of future funding is at least the same as existing funds received from EU and domestic funds noting the enhanced intervention rate for Inverness in Highland.
- **Match funding:** There is a need to consider the "match funding" approach going forward, in particular the requirement for 60% match from public funding. The Scottish Cities need to be able to match future funding with other EU funding sources such as Horizon 2020 and other Government funds more readily.

¹ Scottish Cities Alliance Operational Plan 2018-2022 - <https://www.scottishcities.org.uk/about-us/publications>

²http://www.gov.scot/Topics/Statistics/Browse/Business/Publications/7Cities?_ga=2.174206050.1945295900.1523353359-93965692.1521645969

³ <https://www.corecities.com/>

- **Flexibility:** Any new policy needs to be more flexible and responsive to local needs and match the 7 to 10 year approach within the existing EU Multi Annual Financial Frameworks but with added flexibility to deal with external factors. Future funding also needs to find the right balance between economic and social needs.
- **Local issues, local responses:** Future funding needs to use localised industrial and economic development strategies to identify investment needs. This approach is supported by a recent report from the Local Government Association and Learning and Working Institute, which highlights that there is a need to ensure that the decision making processes of funding are made at the local/city region level⁴. Funding and decision making powers need be devolved and local discretion given regarding the appropriate balance of capital and revenue interventions.
- **Simpler:** need to reduce levels of bureaucracy related to the funds; make the process of applying for and managing funds easier; establish a “single pot” of funding.
- **Distribution:** use most relevant up-to-date data to identify the areas of need/opportunity. Future funding needs to be based not only on need but also on opportunity and should be a measure of GVA as well as Indicators of Multiple Deprivation. There is a need to identify the opportunity in each city region as well as the need – investing in success and not just the challenges faced in each region.

Whilst the Scottish Cities collectively support the above outcomes shared with the Core Cities, it is important to note that Scottish cities will have different priorities due to their geography, scale demographic patterns as well as social and economic structure which will necessitate the need for future funding to be locally and regionally responsive to address need and maximise opportunity.

To date there has been limited information forthcoming from the UK Government on the proposed UK Shared Prosperity Fund with planned consultation being pushed back until later in 2018. Given the importance of ESF and ERDF to the economies of the Scottish Cities it is imperative that discussions between the UK Government, the Scottish Government and with local authorities across the UK begin as soon as possible to ensure that there is sufficient time for all parties to shape future funding in a way which drives inclusive growth across the Scottish City Regions. In this regard there may be opportunities for the Scottish Cities and the Scottish Government via the Scottish Cities Alliance to work with the Core Cities network to press the UK Government to bring their consultation framework forward and work collectively to shape future funding where the views of cities in both networks and the Scottish Government align.

Leaders and Mayors representing the Core Cities met with the EU chief negotiator Michel Barnier in February supported by Eurocities to promote the interests of their local communities, businesses and institutions in maintaining future links with other European cities. The Scottish Cities would be supportive of working with the Scottish Government via the Alliance to utilise Glasgow and Edinburgh’s membership of Eurocities to undertake similar policy influencing activity both pre and post Brexit. CoSLA is also working with the Commission and this is another route the Scottish Cities are keen to work collaboratively with to maximise their ability to influence future funding as well as any future EU programmes they continue to have access to.

⁴See page 7 -

<https://www.local.gov.uk/sites/default/files/documents/WORK%20LOCAL%20FINAL%20REPORT%2005072017.pdf>

Finally, at present only 5 % of the Scottish Structural Funds programme is directed solely towards urban areas. Scotland's Agenda for Cities acknowledges that the Scottish cities and their regions are the key drivers of the Scottish economy and therefore consideration should be given to directing a greater percentage of future funding to cities/urban areas. Work is underway by the Alliance as part of its Operational Programme 2018-2022 to give consideration to a Scottish Cities Infrastructure Fund which could inform this discussion.

Inquiry Questions – Future Programmes

How any future replacement of ESIFs could be used to improve employment, infrastructure and productivity in Scotland's regions?

- Future funding needs to be based not only on need but also on opportunity – it should be a measure of GVA, SIMD and potential. Local areas are best placed to identify need and to work with regional/national government to ensure a co-ordinated approach to development across Scotland.
- Integrate successor funding with other funding sources e.g. Scottish Government, UK Government or with EU funding opportunities such as Horizon 2020 or ERASMUS which we may still have access to post Brexit to ensure a joined up approach to economic development.
- Simplification of processes and delivery structures. The current EU processes can be overly bureaucratic with the landscape further complicated by having many Strategic Intervention leads across an array of organisations, each with their own application and assessment processes and different application timescales.
- Regional policy needs to be just that – developed at a local and regional level. Regional policy needs to consider the differences within and between Scotland's regions.
- Need to ensure that Scotland retains its share of funding – negotiate strongly with the UK Government to ensure that the level of successor funding is at least the same, if not more, than the current level.
- Consider the role of City Deals and regional development plans alongside local needs. Potential to use match funding from the UK Government through City Deals needs to be considered⁵.
- Need to consider the requirement for match funding – levels required and what can be used as match funding. There is an opportunity to match successor funding with other EU, UK and Scottish Government funding. The Scottish Cities will need additional resources to match the scale of the challenge.
- ESF funding should be able to focus on both low-level skills/needs and higher-level skills – working with colleges/SDS to develop activities that meet skills gaps at both lower and higher levels. Research commissioned by the Local Government Association identified that there will be 4 million too few high-skilled people for available jobs and 6 million too many low skilled people⁶. The Scottish Cities need to enable people to gain higher level skills.
- The new programme needs to consider a degree of flexibility in the existing EU funds to support companies to enable the delivery of more effective support in the places that need it most and in ways that are responsive to business needs/demands not time limited. Currently, Business Gateway activities delivered by local authorities are not allowed to use start up areas of the contract as match funding (only growth) which limits the money local authorities have to provide additional support over and above the Business Gateway contract. This funding should be seen as eligible match in future programmes.

Which level of government is best placed to decide how future funding is allocated and what accountability processes should be in place?

Funding in Scotland is currently allocated in a number of ways:

- Funding managed by Local Authorities e.g. Employability, Poverty & Social Inclusion, Business Gateway

⁵ See Cornwall and Isles of Scilly Leadership Board and Cornwall County Council paper for an example of what could be considered and how they could be the accountable body and deliver the programme regionally “New Frontiers – a proposition to Government.”

⁶ LGA, 2017. *Work Local: our vision for an integrated and devolved employment and skills service*

- Funding that can be applied for by local authorities to deliver infrastructure which is managed by different bodies e.g. Transport Scotland's Low Carbon Travel and Transport and the Scottish Government's Low Carbon Infrastructure Investment Fund.
- Funding that is managed nationally by organisations such as SDS and Scottish Enterprise

This currently means that there is a very mixed approach to the allocation and delivery of ESIF across Scotland which leads to confusion and potentially to missed opportunities. There are no set deadlines, or application processes for funds, with each setting its own deadlines and assessment processes. For simplicity, the Scottish Cities are keen that successor funding has a clear and simple set of criteria, rules and processes for allocation and management of funding.

There is a need to ensure that the decision making processes of funding are made at local/city region level. Each city region has a clear idea of their growth potential and skills and infrastructure needs and successor funding should empower them to make the decisions that are right for them. At the same time, consideration should be given at the national level as to how both the Scottish and UK Governments might maintain oversight of decisions made at the city region level to prevent duplication of projects across Scotland. This is necessary to ensure that the economy as a whole is not flooded with similar infrastructure resulting in unhealthy competition which may in fact lead to an overall reduction in productivity and output.

Ultimately, there is a need to structure successor funding in ways that deliver support more efficiently, more flexibly and with more local control.

What are the potential opportunities and risks presented by any replacement fund or programme for ESIFs?

Most of these are covered by the commentary above but they include:-

Risks

- The UK Government and the Scottish Government has insufficient time to consult effectively with all partners to shape successor funding in a way which meets local needs.
- Successor funding is not ready for deployment in time for the UK leaving Europe.
- There is a centralised approach to successor funding to the detriment of the Scottish City regions.
- The dispersion/allocation of funds is not undertaken with due consideration to need and opportunity.
- The UK Government decides not to use the existing EU approach for the distribution of funds to Scotland and Wales (currently Barnett Plus) which would be detrimental to the devolved nations.
- The approach is too rigid and doesn't allow for flexibility in the development of initiatives - thematically, match funding, levels of support, external influences, local need etc.

Opportunities

- Potential to be a lot more flexible in our delivery of programmes
- Ability to utilise city/regional indicators established through work on City and Growth Deals/ Regional Partnerships for allocating budgets and move away from NUTS 2 Level aggregations
- Ability to align other funding sources with successor funding – including potentially EU funding from programmes we might continue to be in e.g. Erasmus Plus and Horizon 2020
- Increase the level of support available for companies and being more flexible in the outcomes expected.

- Allow for integration of funds in order that you don't artificially split the need for skills support from economic development e.g. ESF and ERDF.
- Ability to co-ordinate and integrate the various funds more effectively in Scotland or at a local level/city region level to create a simple clear and workable system.
- Ability to remove the thematic restraints for existing ESIF programmes and to deal with the real issues Scottish Cities face to drive inclusive growth
- Potential to take a fresh look at how future funding might support a bottom-up approach to community-led projects and business development which is managed at a local level in cities. For example, the LEADER programme currently supports local rural communities to build knowledge and skills and encourage innovation and co-operation to tackle local development objectives and future funding could consider extending this to cover urban areas⁷.
- There is an opportunity for future funding to support employability initiatives based in schools to ensure that the funding is responsive to the future needs of the Scottish labour market.
- Consideration should be given to directing a greater percentage of future funding to cities/urban areas recognising the role of Scottish Cities as drivers of the economy.

⁷ <https://www.ruralnetwork.scot/funding/leader>