Scottish Cities Response to:

All-Party Parliamentary Group on Post-Brexit Funding For Nations, Regions and Local Areas

Date:- 12th September 2018

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 submit evidence to the Group's Inquiry. 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 both the UK and Scottish Governments on this objective[1].

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 universities[2]. 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 inquiry questions is provided in Annex 1. In summary, outcomes for future funding sought by the Scottish Cities 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. Evidence form recent ERDF and ESF points to existing match funding problems, which would become significant if grant rates fall significantly below 50%. One advantage of the UK Shared

[1] Scottish Cities Alliance Operational Plan 2018-2022 - https://www.scottishcities.org.uk/about-us/publications
[2]http://www.gov.scot/Topics/Statistics/Browse/Business/Publications/7Cities?_ga=2.174206050.1945295900.1523353359-93965692.1521645969

Prosperity Fund is that adherence to EU set rules on match funding rates would not be required. In the event that match funding remains a requirement to access the UK Shared Prosperity Fund, 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.

- **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 level[3]. 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, bearing in mind the need to take an inclusive growth approach.

Whilst the Scottish Cities collectively support the above outcomes, 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.

Finally, at present less than 5 % of the Scottish Structural Funds programme is directed explicitly towards urban areas. Scotland's Agenda for Cities[4] 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. The Scottish Cities are currently undertaking work to set out in more detail what they would like to see the UK Shared Prosperity Fund

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[3]See page 7 - https://www.local.gov.uk/sites/default/files/documents/WORK%20LOCAL%20FINAL%20REPORT%2005072017.pdf

[4] https://www.gov.scot/Publications/2016/03/3178

in Scotland and why including the case for a greater percentage of the funding being ring fenced for cities and why the overall approach would be of mutual benefit to the wider Scottish economy. It is intended that this work will be complete in time to inform the UK Government's public consultation on the UK Shared Prosperity Fund.

Annex 1

Inquiry Questions

<u>Overall budget</u>

1. **What would be an appropriate annual budget for the new UK Shared Prosperity Fund?**

   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.

2. **Should there be a multi-annual financial allocation, and if so why and for how long?**

   Yes. One of the advantages of the EU approach is its multi annual nature. This provides the opportunity for partners to take a more strategic approach to the development of programmes that comes with the certainty of funding – the long term nature of regional economic disparities in the UK requires coherent long term responses.

3. **Would it be appropriate to roll in other budget lines (e.g. the Local Growth Fund in England) into the UK Shared Prosperity Fund?**

   The Scottish Cities are supportive of integrating successor funding with other funding sources e.g. Scottish Government, UK Government or with EU funding opportunities such as Horizon 2020 or ERASMUS which the UK may still have access to post Brexit to ensure a joined up approach to economic development.

   There is a need to consider the "match funding" approach going forward. With the UK Shared Prosperity Fund there will be no need to adhere to EU set maximum intervention rates and a more flexible approach to identifying match funding sources can be adopted – if indeed there should be a requirement for match funding in the first place.

   Should match funding remain a requirement, 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. The potential to use match funding from City Deals should also to be considered. Currently in Scotland, 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 as this would help deliver more effective support to companies in the places that need it most and in ways that are responsive to business needs/demands. Finally, the evolving Regional Economic Partnership (REP) structures across the Scottish cities will consider how regions achieve inclusive growth underpinned by regional economic strategies. The developing REPs structures have and will bring regional local authorities together alongside national agencies and there is potential for those partners going forward to look at collectively contributing match funding towards UK Shared Prosperity Fund activity in a way that they have perhaps struggled to do to date with ESIF.

<u>Allocation across the country</u>

4. **How should the UK Shared Prosperity Fund be divided up between the four nations of the UK?**

   The Scottish Cities support the continuation of the existing EU approach for the distribution of funds to Scotland currently outwith the Barnett formula.

5. **Would rolling forward the existing shares going to England, Scotland, Wales and Northern Ireland be a sensible way forward?**

   The absolute level of funding needs to be the same if not more.

6. **Should the allocations within the devolved nations be an entirely devolved matter?**

   The arrangements for the UK Shared Prosperity Fund should respect the current devolution settlement.

7. **In England, should the funding to local areas be allocated by an appropriate formula, and if so what are the best statistical measures?**

   N/A

8. **Is there any role for competitive bidding between areas for funding?**

   Scottish Cities would have concerns if all or part of the UK Shared Prosperity Fund was allocated according to a UK wide challenge fund approach. An allocation should be made to devolved authorities/regional authorities.

9. **In England, should sub-regions (e.g. LEP areas, combined authorities) be the basis for financial allocations, as with EU funding at present.**

   N/A

   <u>Activities to be supported</u>

10. **As with present-day EU funding, should economic development and convergence remain the primary objectives of the new Fund?**

    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.

11. **Are there activities beyond the scope of present-day EU funding that should be supported?**

    Funding should be able to focus on both low-level skills/needs and higher-level skills – working with colleges/Skills Development Scotland 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 people[5]. The Scottish Cities need to enable people to gain higher level skills.

Other areas of importance that should be considered include place-making and tourism – which is currently not eligible in the LUPS programme area but a significant sector for most cities that needs input and support. All key sectors highlighted by the Scottish Government should be included. Current EU funding is limited in elements of infrastructure investment to green/low carbon but could be broader. The potential to deliver transnational programmes should also be considered with the UKSPF – much as it is currently in the LEADER programme.

12. **Should there be guarantees that specific activities supported at present by EU funding (e.g. ESF support for training) will continue to receive funding?**

The UK Shared Prosperity Fund should be able to support a mix of people, business and place based activities that will allow each area to improve its potential for inclusive and sustainable economic growth. Individual areas should have considerable latitude in determining this mix although it is recognised that some parameters may need to be set at UK/Devolved Administration level.

Management

13. **As a UK fund, should the UK government set the broad guidelines for the priorities to be supported by the Shared Prosperity Fund?**

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.

14. **What role should the devolved administrations play in setting the broad guidelines?**

See response to question 13 above.

15. **How should the impact and desired outcomes of the Fund be defined and measured?**

The Scottish Cities would like future funding to consider the opportunity to utilise city/regional indicators established through work they have undertaken on City and Growth Deals and their developing thinking on Regional Economic Partnership and Regional Economic strategies for defining and measuring impacts and outcomes. The use of the Scottish Centre for Regional Inclusive Growth should be explored in this regard[6].

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

[6] http://www.inclusivegrowth.scot/

16. **How can the promise that the Fund will be "cheap to administer, low in bureaucracy" best be delivered?**

    See response to question 17 below.

17. **Where should local authorities fit into the management of the new Fund?**

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

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

As per the response to question 13, 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.

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

18. **How should programmes and projects be monitored and evaluated?**

As indicated in the response to question 15, there is a potential role for the Scottish Centre for Regional Inclusive Growth to be considered. Ultimately the impact of the fund should be judged on its results in terms of reducing inter and intra-regional disparities in economic performance, including but not limited to productivity.