

REPLACEMENT OF EU STRUCTURAL FUNDS POST EU EXIT – THEMATIC GROUPS

POLICY ALIGNMENT - PAPER FOR STEERING GROUP AGREEMENT

Drafting and Changes

Name	Date	Comment
Karen McAvenue	17/8	Drafted outline
David Rennie	25/8	Comments and changes (incorporated by KMcA – Full text of changes at annex A
Karen McAvenue	7/9	Incorporated comments from Rob and Amanda
Karen McAvenue	10/9	Infrastructure text added plus further amends post meeting

Status of the Paper

Purpose	The aim of this paper is to outline the fit between the SPF and other national funding streams, including post COVID recovery plans. It will also consider links with other EU Programmes including cross-border programmes and other post Brexit replacement funding. The group may also consider how the SPF might address lateral themes, such as climate change and wellbeing.
Audience	The paper is intended for discussion and agreement by the thematic group, who will refine it before it goes to the Steering Group and then to Ministers.
Ministerial	The paper will be used to inform Ministerial advice and will be part of a longer paper, setting out the recommendations from all the thematic groups.
Steering Group	The final Paper will be submitted for consideration and agreement by the Steering Group on 9 September 2020.
Contributors	Rob Clarke David Rennie Amanda Fox Darren McDowall

Timetable

Action	Dates
First draft of paper	14/8 – 21/8
Discussion and redrafts	21/8 – 30/8
Final Paper	Start September
Discussion at Steering Group	9/9
Redrafts and Changes	9/9 – 14/9
Submission to Ministers	15/9

1 Purpose

This paper forms part of a suite of discussion documents which consider different aspects of a Scottish Replacement Scheme for EU Structural Funds. The other papers cover:

- Funding and Allocations
- Governance and Delivery
- Monitoring and Evaluation

The aim of this policy alignment paper is to outline the fit between the SPF and other national funding streams, including post COVID recovery plans. It will also consider links with other EU Programmes including cross-border programmes and other post Brexit replacement funding such as EU competitive programmes and programmes such as LEADER, currently supported under Pillar 2 of CAP.

The group will also consider lateral themes, such as climate change and wellbeing.

2 Scottish Fund – Key Aim

The main aim of the Fund will be to address and reduce economic and social disparities within and between places and people in Scotland. It will focus on promoting place-based economic development and cohesion, helping communities across Scotland to improve key economic, social and wellbeing performance indicators.

The fund will support local responses to economic and social challenges, empowering communities across the country to respond to issues which impede their development.

As such it will support the Scottish Government's policy aims set out in the Programme for Government and will complement the actions published in the Scottish Government's Economic Recovery Implementation Plan¹, in particular those aimed at developing resilient people, communities and places.

3 Assumptions

The paper assumes that:

- 1 the UK Government will provide the Scottish Government with an allocation of funds that at least matches the level of previous European Structural Funds allocations;
- 2 Scotland will have the freedom to allocate funding to the places and priorities that we choose and which align with our own policy aims and objectives;
- 3 the UK's "levelling up agenda"², which has a strong read across to the Scottish Government's established "inclusive growth"³ approach, will provide much of the underpinning policy thinking from UK Government;
- 4 the duration of each funding programme will be at least 5 years;
- 5 the replacement funding vehicle will cover ERDF, ESF and ETC. Funds covering rural development, including LEADER⁴ are also considered here despite the clarity about whether these will form part of the SPF. Current funding across these areas is noted below:

Fund	Scottish Allocation 14-20
European Regional Development Fund	€476 million
European Social Fund	€465 million
European Territorial Cooperation Programme ⁵	€77 million
LEADER ⁶	€87 million

¹ [Economic Recovery Implementation plan](#) - Section 2.4

² [Conservative Party Manifesto 2019](#)

³ Helpful info on the inclusive growth approach can be found at the [Scottish Centre for Regional Inclusive Growth website](#)

⁴ [Link to LEADER background](#)

⁵ ETC allocations are competitive and not pre allocated

⁶ In the 14-20 period LEADER is funded from the SRDP (CAP pillar 2) and not the ESIF

4 Consultation Report – Background on Policy Alignment

The overall consensus from respondents was that the successor fund should have a broad remit, encompassing social and environmental as well as economic outcomes and supporting a wellbeing economy

Main Policy Priorities

From this, respondents flagged a wide variety of aims for the fund. Key amongst these were:

- Sustainable and inclusive economic growth, including tackling regional economic imbalances and disparities
- Tackling poverty and reducing inequalities that exist across Scotland's communities and regions.
- Climate change
- Skills and employability

There was also support, albeit to a lesser extent, for:

- Business Development and Growth
- Wellbeing Economy
- Health and Wellbeing Improvement
- Infrastructure

Policy Framework

In terms of an underpinning policy framework, Scottish policy priorities were considered to be the primary driver with the National Performance Framework and Scottish Economic Strategy cited most often in this regard.

The UK Industrial Strategy was generally considered to have too narrow a focus on economic outcomes such as productivity, but with a recognition that there are tactical advantages to be gained in maintaining some alignment. Similar advantages were seen in maintaining a level of alignment with EU Cohesion Policy. However, respondents were more positive about retaining alignment with other EU programmes such as Horizon 2020 and ETC.

Setting and Agreeing Priorities

Whilst high level priorities for funding should be set at a Scotland level, these should be developed and agreed in partnership with national, regional and local stakeholders and communities and align with regional working and approaches (e.g. Regional Economic Partnerships, City Region and Growth Deals)

5 Scottish Replacement Programme

5.1 What will the replacement programme be seeking to achieve?

A National Level

On the assumption that Scotland will be able to set its own priorities, national policy will flow from the fund's overall purpose and main aims outlined above. However, we need to be mindful of potential constraints, especially money. Whilst final figures are as not yet known, the total funding that will be allocated to Scotland is unlikely to be sufficient to address all of these aims and therefore we need to focus on the priorities that are both affordable and are likely to make the biggest impact.

Key Aims

If we assume that social and economic cohesion is the overall aim of the fund, this leaves five key priorities:

- poverty reduction,
- employability and skills,
- business growth,
- wellbeing economy and
- climate change.

In terms of the last two items in this list, climate change and wellbeing are increasingly central to all policy making in Scotland and could therefore be horizontal objectives that sit across the main priorities. This will require further thought on how best to ensure that these issues are sufficiently visible and influential when comes to programme design

Places

Finally, using the fund to empower and support places was a key theme that emerged from the consultation responses. It would therefore be appropriate to address this by including a place priority as part of the overall objectives of the fund.

Infrastructure

The affordability issue might mean that support for infrastructure projects cannot be prioritised, at least at a national level. Including the flexibility to support regional infrastructure is however, appropriate, and indeed it may also be appropriate for some geographies to support infrastructure investment in so far as it aligns to national ambitions and is crucial to realising regional growth aims. Aligning funds from this programme with other funding vehicles such as the SNIB may be the best route forward and this will be explored in more depth in due course.

National Performance Framework

The National Performance Framework⁷ can provide a key set of outcomes for the programme to aim at with more granular indicators underpinning each of these. In addition, the Scottish Government has developed a Wellbeing Economy Monitor, based on the National Performance Framework and building on the work undertaken on the inclusive growth outcomes⁸, to develop a framework that assesses performance at a national and regional level of the wellbeing economy in Scotland – the outcomes that underpin this are: productivity, population, participation, people, place and sustainability.

It is envisaged that regional and sub-regional actors – spatial units to be determined – will be able to develop, deliver and manage their own programmes within the context of a national framework. It will be for them to choose the themes and priorities to support in light of their specific set of circumstances.

⁷ <https://nationalperformance.gov.scot/index.php/national-outcomes>

⁸ https://www.inclusivegrowth.scot/wp-content/uploads/2018/06/414813_SCT1119483414-001_Inclusive-Growth-Outcomes-Framework_P3.pdf

B Regional Level

Regional programmes will link to national policy priorities as described above and within this context regional leads will be able to design programmes to fit their own needs. This may lead to programmes across Scotland applying different weightings to different outcomes, eg rural areas may choose to focus on population retention, whereas urban areas may concentrate on tackling poverty.

Infrastructure

As noted above, while the likely scale of funds precludes investment in significant “national” infrastructure, (these can be supported through, for example, SNIB) the flexibility to make regionally significant, place based, infrastructure investments where they are integral to broader development plans is sensible. This may be particularly beneficial in rural Scotland where infrastructure gaps are evident and such investment can be the catalyst to wider development.

C Sub Regional Level

A key aim of the programme is to address disparities within regions and therefore as part of their programme development regions will be required to devolve authority for development and disbursement of funding to the lowest appropriate level. It is expected that the relationship here will be similar to the relationship between regional and national levels.

At each of these layers, programmes must demonstrate how they connect to national policy outcomes.

National Programmes

In pursuing progress on these aims, we will seek to deliver at whatever level is appropriate to the policy objectives. This means that certain policies may need to be delivered at national level – business support for example may be most sensibly delivered by enterprise agencies.

There are two possible approaches to this:

A Reserving a proportion of the funding to support national programmes⁹. Decisions over allocations and which elements of the fund this will apply to are to be agreed in line with Ministerial priorities and will be routed through appropriate Enterprise and Skills Agencies.

B Allocating all funding on a regional basis and allowing regional programmes to negotiate appropriate services with national agencies (eg SDS).

Regardless of the delivery channel the focus must be on meeting the objectives of the Programme and delivering effective outcomes for beneficiaries.

⁹ Most likely to be skills and support business

Mapping to the NPF and Inclusive Growth Outcomes – Draft National Framework

Overall Aim	To reduce economic and social disparities within and between places and people in Scotland			
Key Themes	Improving Places	Tackling Poverty	Skilled People	Business and Job Growth
NPF Outcomes	We live in communities that are inclusive, empowered, resilient and safe	We tackle poverty by sharing opportunities, wealth and power more equally	We are well educated, skilled and able to contribute to society	We have thriving and innovative businesses, with quality jobs and fair work for everyone
Inclusive Growth Theme	Communities across Scotland have the natural and physical resources to ensure they are strong and sustainable.	Inequality of opportunity to access work is addressed and jobs are fulfilling, secure and well-paid	Scotland's population is healthy and skilled and economic benefits are spread more widely, with lower levels of inequality.	Businesses are competitive and economic growth is resilient and sustainable.
Economy	GVA per head (per ONS);			
	Productivity (per ONS);			
	Business stocks (per IDBR)			
	Business birth and deaths			
Inclusion and Poverty	Deprivation (per SIMD)			
	GDHI per head (per ONS)			
	Tax credits			
	Free School meals			
	School leaver destinations			
Skills and employment	Child poverty			
	Employment/inactivity rates (per APS/LFS);			
	Skills/Qualification levels (per APS/LFS);			
Community¹⁰	Community Influence			
	Loneliness			
	Neighbourhood rating			
	Satisfaction with Local Services			
Covid Impacts	Usage of furlough/Self-employment scheme?			
	Average population age			
	Low Skilled Self Employment			
	Employment in retail, hospitality and tourism			

¹⁰ Drawn from SHS: <https://www.gov.scot/publications/scottish-household-survey-key-findings-2018/pages/2/>

6 Risks

Alignment with Scottish Priorities may not be possible should the scheme be drafted to prioritise the UK Industrial Strategy or other UK designed policies such as the Levelling Up agenda. That said, these policies are likely to be sufficiently high level for a reasonable read across to be established with Scottish plans.

The recent publication of the UK Internal Market Bill has thrown some doubt on how far the Scottish Government and partners will be able to design a scheme to meet our own needs. Section 6 of the bill proposes changes to financial assistance for economic development that would allow the UK Government to disburse Shared Prosperity Fund monies directly to Scotland stakeholders, undermining the role of the Scottish Government and potentially complicating the delivery of our aims and objectives.

Different stakeholders prioritise different issues and these tensions exist across a variety of axes: Urban/Rural; Third/Private/Public Sectors; Economic/Social. The ability of local partners to develop programmes that meet their needs within the context of a national framework should help to address these tensions – trickier issues may arise when in choosing methodologies for allocations.

Given the potential broad scope of the fund, there is a risk that it duplicates rather than complements existing public funding and policies. We need to develop processes to ensure that monies are being used in a genuinely additional manner.

7 Supporting Covid Recovery

The pandemic has delivered a huge shock to the Scottish economy, completely changing how we live, work and interact with each other. There will be long-lasting challenges not only to the economy but to personal wellbeing and community resilience which we must seek to mitigate.

There is a spatial dimension to this, with the areas worst hit by the pandemic not necessarily the same as those areas traditionally considered to be disadvantaged. Data is still emerging but we need to build objectives and processes into the fund that allow Covid related challenges to be addressed.

Considerable work has been done to identify these impacts and we must ensure that this funding helps us fulfil our responsibilities to support those people and communities most affected. In terms of the recent response¹¹ to “Towards a Robust, Resilient Wellbeing Economy for Scotland: Report of Advisory Group on Economic Recovery¹²”, recommendations 3 and 17 have the best fit with the aims and objectives of this programme. Programmes at all levels must therefore be designed to align and support these aims and all other relevant activity.

Due recognition must be given to this issue when priorities and objectives are being developed

8 Alignment with other EU programmes

There is merit in retaining some alignment to European cohesion policy, as they are reflective of Scotland's key aims and some alignment would be helpful if we are to continue with international partnerships for example through continued participation in European Territorial Cooperation Programmes. For the post 2020 period, the funds will focus on five investment priorities¹³:

- **Smarter Europe**, through innovation, digitisation, economic transformation and support to small and medium-sized businesses

¹¹ <https://www.gov.scot/publications/economic-recovery-implementation-plan-scottish-government-response-to-the-advisory-group-on-economic-recovery/pages/6/>

¹² “the Benny Higgins Report” <https://www.gov.scot/publications/towards-robust-resilient-wellbeing-economy-scotland-report-advisory-group-economic-recovery/>

¹³ https://ec.europa.eu/regional_policy/en/2021_2027/

- a **Greener, carbon free Europe**, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change
- a more **Connected Europe**, with strategic transport and digital networks
- a more **Social Europe**, delivering on the European Pillar of Social Rights and supporting quality employment, education, skills, social inclusion and equal access to healthcare
- a **Europe closer to citizens**, by supporting locally-led development strategies and sustainable urban development across the EU.

Structural Funds are not the only monies affected by BREXIT. Participation in competitive programmes as Erasmus and Horizon are also under threat, and colleagues in other parts of SG are working with UK Government on emerging plans. In policy terms we must be aware of the plans that are emerging here and ensure that the Structural Funds replacement is complementary to and does not duplicate whatever emerges.

9 Rural Development

The new constraints of the previous EU programmes will not follow through into the new scheme, so there will no longer be the divisions between ESF, ERDF, rural development etc. – there will simply be a single fund which can be used in a flexible way to support the activity which regional partners deem to be of most use in their areas.

We have therefore assumed that the aims and objectives covered by the current LEADER programme should be incorporated into the SPF. However, this cannot be done unless there is a transfer of funds from the CAP replacement or an appropriate uplift in support from the UK Government..

10 Recommendations

We recommend that:

- The key aim of the Scottish Programme is to reduce economic and social disparities within and between places and people in Scotland
- The Scottish Programme is aligned to the National Performance Framework, with some reference to both UK and EU policies
- The main themes for the national fund are tackling poverty, increasing skills and business and job growth
- In addition to these three themes, there should be a focus on improving the places in which these activities will be delivered and this should be built into the programme as an objective
- Wellbeing and Climate change need to be underpinning principles of the programme
- Regional plans should have a clear line of sight between their aims and objective and the overall national themes. However, regional and sub-regional actors are free to select the most important for their areas and align support and effort accordingly.

Future Funding,
September 2020

Annex B

Existing Funding Streams (from Consultation report)

- Business Readiness Fund
- City Region and Growth Deals
- Community Capacity and Resilience Fund
- Enterprise and skills funding
- Erasmus
- Fair Start Scotland
- Grant programmes that support and protect the historic environment (e.g. repair grant scheme, Conservation Area Regeneration Scheme (CARS))
- Horizon Europe
- National infrastructure and net zero investment funding
- National Lottery Heritage Fund
- Potential successors to existing EU rural development and fisheries funding
- Rural Development Fund
- Scotland's share of the UK Apprenticeship Levy proceeds, including the Scottish Government's Flexible Workforce Development Fund
- Scottish Funding Council - University Innovation Fund
- Scottish Government - Rural Tourism Infrastructure Fund
- Scottish Government - Tackling Poverty Fund
- Scottish Land Fund
- Scottish Landfill Tax Credit Scheme
- Scottish Natural Heritage Biodiversity Challenge Fund
- Skills Development Scotland - Employability Fund
- UK Research and Innovation - Strength in Places Fund

Future Funding

August 2020

