European Structural Funds

Proposed Scottish Replacement Funding Programme

"Scottish Shared Prosperity Fund"

November 2020

Scottish Government
Riaghaltas na h-Alba
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Contents

MINISTERIAL FOREWORD FROM IVAN MCKEE, MINISTER FOR TRADE, INVESTMENT AND INNOVATION

This document sets out how the Scottish Government plans to direct our share of the replacement for the European Structural Funds.

As we move ever closer to the end of over 40 years of the Structural Funds investment in Scotland, which in the last 7 year programme alone have contributed £780 million, or just over £100 million per annum, to projects across Scotland, it is worth reflecting on some of the activities that they have supported over the years. They have invested in infrastructure such as the Westerns Isles Spinal route and broadband in the Highlands and Islands, paid for research and innovation in in marine renewables, enabled our cities to become "smart", helped thousands of young people into training and employment, created opportunities for businesses to grow and develop, supported our culture and heritage and paid for projects that will help Scotland to realise its net zero ambitions.

Whilst Structural Funds have paid for some hugely important investments and activities, it is not only the financial aspects that will be missed in Scotland, but the opportunities that Funds created to learn from other parts of Europe and to share ideas and experiences with a diverse community of policy makers. This outward looking, collaborative focus is something which a UK-only fund will find difficult to replicate.

As I write this, less than 2 months from the end of the Structural Funds in Scotland, the Scottish Government and our colleagues in the other devolved nations still have no idea what type of programme the UK Government is planning. We do not know the quantum of support that may be available to us. We do not know which funds will be replaced. We have no idea what conditions may be placed on the funding. We do not know how long the fund will be for or when it might start. We do not know if we will be entrusted with the budget or the freedom to deliver on the plans in this paper. And we do not know whether it will respect the long-standing principle of partnership.

Had we remained in the European Union, we would have had full involvement with the development of plans for this new programming period, and we would know exactly how much was coming to Scotland and how it would be spent. As things stand now, it is both regrettable and remarkable that the UK Government has chosen not to include us in the development of the replacement funding, given the central position that the Scottish Government has played in delivering these funds for many years. It is also at odds with the UK Governments own 2018 commitment to " … respect the devolution settlements in Scotland, Wales and Northern Ireland and …

engage the devolved administrations to ensure the fund works for places across the UK."[1]

Given the tight timescales we have no choice but to develop our processes to deliver this programme and to proceed on the basis that full funding to do so will be devolved to Scotland by the UK Government. I remain hopeful that this will be the case and that we will be able to work with our partners and colleagues across the country to deliver a Scottish Shared Prosperity Fund that supports our common growth ambitions.

This is a long term strategy, one that not only considers how best to ensure that the places and sectors across Scotland worst hit by the COVID pandemic have rapid access to the support they need to drive recovery, but that these same places have assurance that this support will be available over the longer term, allowing them to address deep rooted disparities.

Therefore, the approach that the Scottish Government plans to take will see the vast majority of this money devolved to the places and people in Scotland that need it most. Along with money, powers to develop and deliver local programmes and activity will also be devolved to the lowest appropriate level. We will empower regions, local authorities and communities right across the country, helping them to address constraints and challenges that are specific to them.

Councils will play a central role in the approach that we propose to take. Councils have been and will remain integral to determining and deciding regional strategies in the form of growth deals, regional economic plans and a variety of other activities. We recognise and will build on this expertise when we roll out this programme.

All of this will be done within the context of Scottish policy and will align to our National Performance Framework. The Scottish Government will maintain a strategic role, working in partnership with regions across Scotland to agree plans and ensure that the funding is achieving its intended outcomes.

We will not create additional unnecessary bureaucracy with this programme, and so will work with existing and emerging regional economic vehicles including the Regional Economic Partnerships, Highlands and Islands Enterprise and the South of Scotland Enterprise, building on their local knowledge and ability to hit the ground running.

However, we cannot do any of this unless the full amount of funding due to Scotland is transferred in its entirety and without any conditions from the UK Government to the Scottish Government. In the forthcoming Spending review we therefore expect the UK Government to honour its commitment to "at a minimum match the size of

[1] https://questions-statements.parliament.uk/written-statements/detail/2018-07-24/HCWS927

those funds in each nation”[2] and commit to transferring at least £183 million per year to the Scottish Government to replace the EU Structural Funds, and the European Territorial Cooperation and LEADER programmes. This equates to a 7 year replacement programme of £1.283 billion[3]

I am pleased that these plans have been developed in conjunction with stakeholders across Scotland: we have been very clear since the start of this process that we would work with partners across the country to shape a programme that meets their needs. Not only did the information and views which we gathered as part of our extensive consultation process inform our thinking on policy and how best to ensure value for money, but the steering group that I formed to help us deliver our policy aims has played a key part in arriving at the ideas which are set out here.

I would like to thank everyone who has supported us with this work, whether it was by submitting a consultation response, attending a seminar or contributing to the drafting process. I am especially grateful to the members of the Steering Group, in particular the Chair, Professor David Bell, and the Co-Chair, Professor John Bachtler, for their committed and enthusiastic participation.

IVAN McKEE,

Minister for Trade, Investment and Innovation

November 2020

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[2] https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf page 44

[3] This covers replacements for the European regional Development fund, the European Social Fund , the European Territorial Cooperation Programmes and an uplift for LEADER, which is currently funded under CAP pillar 2 . See Annex C

Executive Summary

The purpose this document is to set out the Scottish Government framework for Scotland's allocation of the UK Shared Prosperity Fund, which will replace European Structural Funds following the UK's exit from the EU. The results of the public consultation, which was held between November 2019 and February 2020, have informed thinking and the Scottish Government has developed this plan in partnership with our expert steering group, chaired by Professor David Bell of University of Stirling, and other external stakeholders.

Four key areas were addressed: Funding and Allocation; Governance and Delivery; Policy Alignment; and Monitoring and Evaluation. Each was considered in depth and a paper with recommendations produced for each. This document brings together the thinking from across these papers, setting out the high level strategic framework for a Scottish Shared Prosperity Fund.

Assumptions

The lack of clarity from the UK Government is key in all of this. We remain unclear of their intentions, the recently launched Internal Market Bill implying they will lead and direct funding with no regard for the wishes of Scotland or the Scottish Government or the evidence base of 'what works' in regional and local development in Scotland.

In the meantime the Scottish Government will continue to progress thinking on how a Shared Prosperity Fund in Scotland may be directed, shaped and governed and has therefore based this work on some key assumptions:

- 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 in real terms;
- 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;
- the programme will align with the Scottish Government's established "inclusive growth"[4] approach together with our focus on Covid recovery;
- The programme will be multiannual, lasting at least 5 years or 7 years if the UK replacement scheme matches the European Multi Annual Financial Framework;
- the replacement funding scheme will cover the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the European Territorial Cooperation Programmes (ETC).
- As a consequence of the lack of clarity from the UK government around whether the work of the LEADER programme is included in the scope of the Shared Prosperity Fund we have proceeded on the basis that LEADER will be included. Clearly LEADER[5] cannot form part of this programme without a transfer of funds for its replacement from the UK Government.

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

[5] Link to LEADER background. LEADER is currently supported from CAP pillar 2 and at the time of writing it is unclear if the replacement funding for CAP includes provision for LEADER

Aims and Policy

- The key aim of the programme will be to focus on addressing and reducing economic and social disparities within and between places and people in Scotland;
- Decentralisation of funding is at the core of this approach, and we want to ensure that decisions are made as closely as possible to the people, businesses and communities who will be impacted;
- The themes for the Scottish programme will be Improving Places, Reducing Poverty, Increasing Skills, and Growing Business and Jobs to aid a just and green recovery from the COVID pandemic;
- Enhancing wellbeing and responding to the climate change emergency will be underpinning principles of the programme;
- As noted above, the policy area currently supported by LEADER will be considered as part of the Scottish programme, if they are not covered in the replacement for CAP, <u>but this can only happen subject to funds for this being made available by UKG.</u>

Governance

- The governance of the programme will be tiered: the Scottish Government will be the strategic lead whilst regional partnerships will be the main bodies charged with developing and funding programmes for their areas;
- These regions will align with the Highlands and Islands Enterprise (HIE) and South of Scotland Enterprise (SOSE) areas and we will seek to make use of the developing network of Regional Economic Partnerships (REPs) across the rest of Scotland;
- The programme will seek to empower communities across Scotland to develop and deliver activity and to devolve responsibility for action to the lowest appropriate level;
- The programme will be multi-annual, at least 5 years.

Governance – National Programmes

- A final model is still to be decided upon – options are to directly fund national agencies to deliver support across Scotland, or, to route all monies through the regions who will each contract with national agencies to deliver support in their area;
- Discussions have shown a preference for routing the monies through regions however this is still to be fully agreed;
- Whichever model is decided upon, we will liaise fully with the relevant stakeholders and delivery bodies to ensure that the final model delivers a suitable balance between local accountability and equality of access to key programmes such as apprenticeships, and policy approaches such as “No-one left Behind”.

Funding and Allocation

- A transparent, needs-based regional allocation model will be developed by the Scottish Government. This need not align with the allocation model(s) used in other parts of the UK;
- The model will use a basket of weighted measures which will then be applied across each regional partnership geography to determine the share of the fund to be allocated to that partnership;
- Funding will be allocated to each regional partnership for a 5 year programme that will be agreed in advance with Scottish Government and support the achievement of national aims and objectives;
- Regional partnerships will be free to allocate money as they wish in their regions, guided by principles which align their plans with national priorities that support place based and community wealth building approaches;
- Regional partnership leads must involve communities and citizens in the development of their plans and allocation models, engagement with communities must be inclusive and follow the principles set out in the National Standards for Community Engagement;
- Regional partnerships should include options within their allocation models to enable communities direct access to the funds to address locally identified priorities that are aligned to the overall programme outcomes.

Monitoring and Evaluation

- The Scottish Government will develop a Monitoring and Evaluation Framework which will focus on outcomes and outputs, rather than activities and inputs;
- The framework will explain what is to be achieved in terms of economic impacts, benefits for business, etc.; articulate a fit with the business plan and strategic objectives such as the National Performance Framework (NPF); identify the activities to deliver and the resources required to achieve the selected objectives; develop a logic model to evidence how the resources and activities will align with achievement; develop SMART objectives for assessing performance; identify key measures to track performance and ascertain how data will captured together with the roles and responsibilities of all involved; and plan for review and evaluation;
- The development of the monitoring and evaluation framework shall be done in parallel with the design of delivery arrangements for the replacement funding Programme;
- The National Performance Framework will be used as an over-arching framework rather than a prescriptive list of indicators;
- Additionality of any support must be considered at the outset during appraisal;
- The monitoring and evaluation framework shall focus on the results that can be attributed to the replacement fund and be proportionate to the activity supported;
- Monitoring and evaluation activity will reflect the Scottish Government's focus on economic, social and wellbeing performance but should maintain some awareness of how the next set of European Structural Fund Programmes will be delivered for the 2021-27 period;
- A separate Appraisal Group will be set up to consider how the appraisal process will work within a tiered management system of delivery.

Areas for Further Work

As noted above, this framework sets out the high level aims of the programme – without further information from the UK Government it is not possible to develop this further. Once this has been agreed our next steps will be to work with partners across Scotland to develop the detail on each area of this plan, agree regional allocations and activity, and set up financial, audit and IT arrangements.

Section 1 Aims and Objectives of the Scottish Scheme

Our key assumptions for the programme are listed on page 6.

The main purpose of the Scottish Programme will be to address and reduce economic and social disparities within and between places and people in Scotland.

The programme will also:

- focus on promoting place-based economic development and cohesion helping communities across Scotland to improve key economic, social and wellbeing performance indicators;
- support local responses to economic and social challenges empowering communities across the country to respond to issues which impede their development; and
- support the Scottish Government's policy aims set out in the Programme for Government and National Performance Framework and complement the actions published in the Scottish Government's Economic Recovery Implementation Plan, in particular those aimed at developing resilient people, communities and places.

Principles

A number of principles emerged from the discussions which are set out below:

A There was consensus or broad support for principles on the **policy purpose** of the funding:

accountability	delivering the Fund to achieve a measurable reduction in local disparities in key economic, social and wellbeing performance indicators, and measurable improvement in indicators of citizen empowerment.
additionality	supporting activities that are not otherwise funded, and encouraging new ideas and innovation in responding to local economic and social constraints on development. Scale, time and quality additionality were each felt to be important considerations.
complementarity with action on Covid	ensuring that the programme aligns and complements other actions to support Scotland through the economic and social challenge that the pandemic has created Including the forthcoming report from the Social Renewal Advisory Board

There was also consensus on two **horizontal themes**, though further work would be needed regarding their implementation:

sustainable development	actively advancing the Scottish Government's sustainable development goals.
wellbeing	actively advancing the Scottish Government's wellbeing goals.

B It was agreed that the **governance of the funding** should be based on four principles:

existing structures	use existing partnership structures to deliver the programme which would minimise costs, maximise efficiency and avoid potential duplication of effort and activity.
simplification	reducing bureaucracy and making best use of existing structures and processes.
duration	a minimum 5-year period for predictability for investment. This is in line with the multiyear approach of the current EU funding streams and would require UK Government to recognise this requirement and align CSR cycles accordingly.
devolution and subsidiarity	decentralising decisions on the use of the Fund to the lowest appropriate level but working with national agencies and providers on national priorities to ensure that there are no asymmetries of access across the country.

C On **the geography of funding** the key principles are:

spatial targeting	allocating funding according to regional and local disadvantage – which will require transparent methodologies.
place-based approach to economic development and cohesion	supporting interventions that are designed to meet local development challenges and opportunities. This to be structured around sub-regions but based on the needs of communities and recognising the role of local authorities.
flexibility	taking an open approach to the sub-regional geography of intervention, and enabling towns and communities across Scotland to come forward with projects to help themselves to improve their economic, social and wellbeing performance.

D The principles of **community empowerment are central to our approach**

community empowerment	exploiting local knowledge and involving communities and citizens directly in decisions on the design and implementation of interventions.
building local administrative capacity	to facilitate community empowerment and involvement in the Fund. this must align with the value-for-money aspects of supporting development of local administrative capacity and the principle of simplification.

Section 2 Funding and Allocation

This sets out the proposed allocation methodology for the disbursement of funding from the Scottish Government to regional partnerships across Scotland. It does not comment upon the allocation of monies from the UK to Scotland other than to assume that full replacement funding will be routed from the UK Government to the Scottish Government.

Summary

A transparent, needs-based regional allocation model will be developed by the Scottish Government. This model need not align with the allocation model(s) used in other parts of the UK.

The model will use a basket of weighted measures which will then be applied across each regional partnership geography to determine an allocation to that partnership.

The measures used will be aligned to the aims of the overall themes of the National Programme which are:

- Improving Places
- Tackling Poverty
- Skilled People
- Business and Job Growth

Devolving Funds to Regions

Funding will be allocated to each regional partnership in support of a 5 year programme that will be agreed in advance with Scottish Government.

Each regional partnership programme will fit within the Scottish framework and support the achievement of overall aims and objectives of the national programme.

Regional partnerships will be free to allocate money as the wish in their regions as long as they can demonstrate how their plans will support national objectives.

Regional partnership leads must involve communities and citizens through inclusive engagement in the development of their plans and allocation models.

Regional partnership leads must provide options within allocation models enabling communities direct access to the funds to bring forward local projects.

Geographies and National Programmes

Regions will align with the Highlands and Islands and South of Scotland Enterprise areas and with emerging Regional Economic Partnership Areas in the rest of the country.

National Programmes

A final model is still to be decided upon – options are to directly fund national agencies to deliver support across Scotland or to route all monies through the regions who will each contract with national agencies to deliver support in their area.

Discussions have shown a preference for routeing the monies through regions however this is still to be fully agreed.

Whichever model is decided upon, we will liaise fully with the relevant stakeholders and delivery bodies to ensure that the final model delivers a suitable balance between local accountability and equality of access to key programmes such apprenticeships and policy approaches such as “No-one left Behind”.

Use of Indicators to Determine Allocations
We are currently working with economists on the types and number of indicators that could be used to determine regional allocations. A final list has not yet been agreed but the thematic areas that indicators are likely to cover are: Economy; Inclusion and Poverty; Skills and Employment; and Community and Covid Impacts.

Match Funding
Match funding will continue to be a requirement in the programme however, without more detailed information from the UK Government around the quantum and conditions of the funding, decisions on this matter cannot be taken.

Next Steps
Further work is required on how best to design the tiered model. Of particular note is how best to ensure that the principle of empowering communities is delivered, including how this might be achieved in practice without creating more bureaucracy and administration or impacting on the position and role of the local authorities.

As noted above, further work is required to be done on how best to deliver national level activities.

Fuller consideration of match funding issues will be taken forward once the quantum and conditions of funding from the UK Government are known.

Finally, there needs to be more work done on the number of indicators used to determine allocations.

Section 3 Governance and Delivery

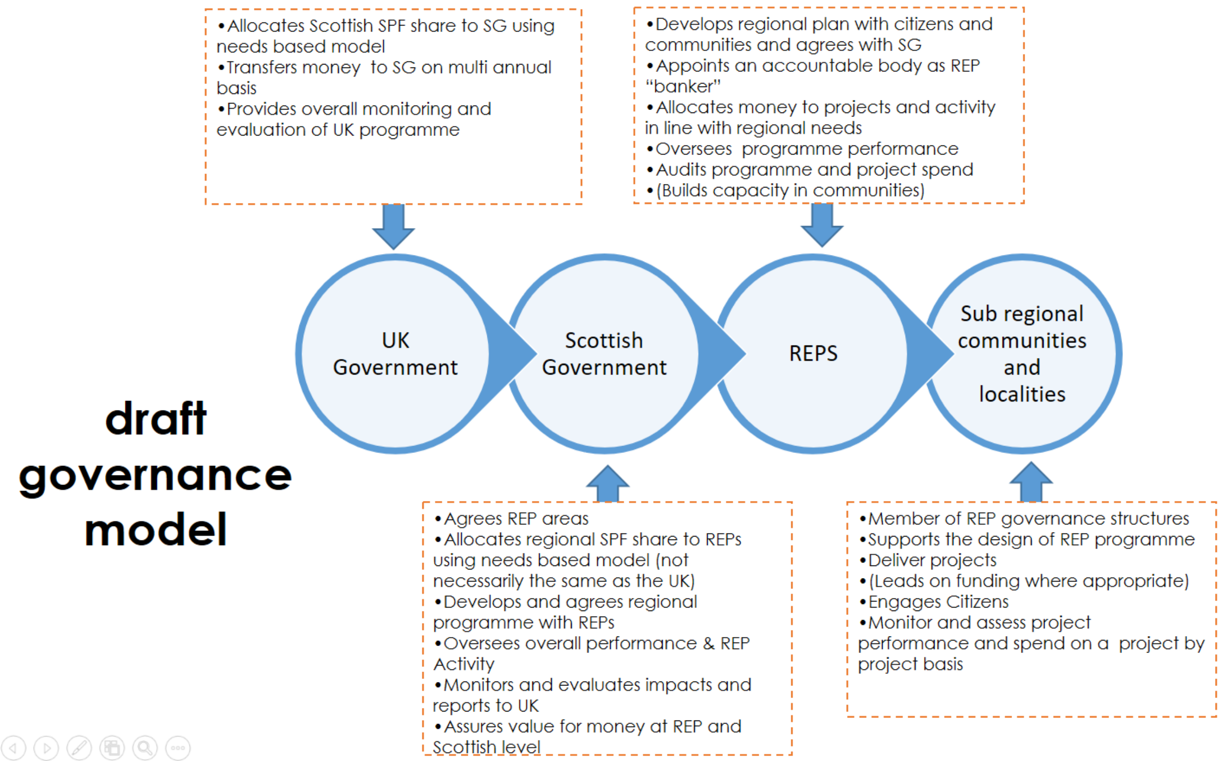
This section sets out the principles underpinning the governance and delivery mechanisms for the Scottish replacement fund before setting out the preferred model.

Summary
The Scottish programme will be based on the principle of subsidiarity with much of the authority and responsibility devolved to regional and local partnerships.

Delivery arrangements will make use of existing bodies and partnership structures operating at a regional and local level where possible, with enhanced levels of regional/local accountability and management of funding and a focus on local priority setting within a broad national framework.

Core principles, aims and objectives will be broadly similar to previous EU Structural Funds programmes expanded to include wider social objectives; additionality should remain a key principle of the successor fund.

Scottish policy priorities should be the primary driver at all governance levels and measures of success should align to the National Performance Framework.



Key Principles
Subsidiarity – the programme should seek to address national outcomes, as directed by the National Performance Framework, but be delivered in line with regional and sub-regional objectives which align to these national level priorities. For national priorities programme stakeholders will work with national agencies and providers to ensure that there are no asymmetries of access across the country.

Utilisation of existing structures – Wherever possible the programme will use existing partnership structures, which will minimise costs, maximise efficiency and avoid potential duplication of effort and activity. Robust audit and financial management procedures are crucial to programme delivery therefore each region would need to be led by a public body with this capacity already in place.

Straightforward –The governance model should focuses on simplicity with a stronger emphasis on the needs and expectations of places, giving people devolved responsibility for developing and delivering funding programmes in their area.

Duration - To allow programmes to "launch, develop, and embed", the UKSPF should be multiannual, lasting at least 5 years or 7 years if it is intended to match the European Multi Annual Financial Framework.

Additionality - The programme should retain this aspect from the European Structural Fund with a focus on additionality across scale, time and quality.

Appraisal – Appraisal is needed in order to assess the risk of support to the public purse and to ensure any proposal aligns to the national/regional framework and associated priorities. A separate Appraisal Group will be convened to consider this in greater detail.

Alignment with Covid recovery – Whilst these funds should remain focused on the key priorities set out for them, governance and delivery arrangements must reflect and dovetail with activity designed to support covid recovery.

Next Steps
The next stage in this process is to build upon the principles agreed here and to finalise work on how best to deliver national services and to allocate and engage at a sub-regional level to involve communities in a meaningful and empowering manner.

There are wide ranging expectations of the replacement vehicle and we must recognise that not all of these will be met. The current EU Structural Fund Programmes have contributed £780 million, or just over £100 million per annum, for the 2014-20 period. Even with an uplift for inflation we are aware of the limitations this sum affords and the need for care when identifying priorities to focus on; spending on infrastructure, for example, is unlikely to be extensive. Equally, there are no guarantees that recipients will receive the same funding as they have for previous projects.

As one of the design principles of the programme is to avoid complexity and the creation of new burdensome bureaucracy the governance arrangements for this programme will be streamlined and complementary to those of other similar programmes. The approach to allocations across regions will be part of its design.

Section 4 Policy Alignment

This section sets out the policy focus for the programme and how it aligns to and complements related activity.

National Level

The key aim is to reduce economic and social disparities within and between places and people in Scotland whilst the main themes for the national fund are improving places, tackling poverty, increasing skills and business and job growth. In addition, wellbeing and addressing climate change will be placed as horizontal themes which cut across the programme.

The policy context will be provided by the National Performance Framework. The programme will also retain a line of sight to EU cohesion policy to ensure the opportunities for territorial cooperation and international learning continue.

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.
Horizontal Themes	Wellbeing Climate Change			

Regional Level

Regional plans should have a clear and identifiable link 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 funding accordingly. This may lead to programmes across Scotland applying different weightings to different outcomes, e.g. rural and Island areas may choose to focus on population retention whereas urban areas may concentrate on tackling poverty.

Local Authorities

Local Authorities will have a key and central role to play in this programme. Many of them will be the budget holder for the regional fund, and all of them will have a leading role to play in the development and delivery of regional programmes. We will continue to work closely with them and COSLA on the detail of delivery once funding from the UK Government is confirmed.

Links to Other Funding Streams

At this stage it is not clear which funding and policies will be bundled into the UKSPF – will it be a straight replacement for the European Regional Development and Social Funds, or will it also seek to replace other EU funding programmes? This lack of clarity has impacted in particular on arrangements regarding the replacement for the rural development programme, LEADER, which is currently funded under CAP Pillar 2.

This work has assumed that the aims and objectives covered by the current LEADER programme should be incorporated into the SPF. However, this is contingent on the UK Government providing full replacement funding. LEADER is worth around £50.8 million over the 2014-20 Programme and supports 21 LEADER Action Groups (LAGs) across Scotland.

Infrastructure Investment

As noted in the previous section, the quantum of funding is unlikely to be able to pay for national or major infrastructure projects. However it must be recognised that such investment may be appropriate for some geographies 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 may be the best route forward and this will be explored in more depth.

Furthermore, the Scottish Government is clear in its wish to continue to participate in the Future European Territorial Cooperation (ETC) Programmes and collaborate with our near neighbours. These have been of considerable benefit to Scotland with almost £98 million allocated to Scottish partners through competitive application processes from 2014-2020. These programmes, in particular the Northern Periphery and Arctic Programme and North Sea Region Programme, have been of great benefit to Scotland, not only in financial terms, but also in relation to knowledge transfer and sustained collaboration on common issues to find joint solutions. The UK Government have stated that ETC will be subsumed into the UKSPF. As a consequence the Scottish Government is clear that this money should be devolved to enable Scotland to decide on continued participation in ETC programmes that will continue to benefit the people of Scotland.

Climate Change

Throughout the consultation process ran a very palpable theme of the need for recognition of climate change and how the fund might support Scotland net zero ambitions. In addressing this and to ensure sufficient visibility, climate change has been made one of two horizontal themes which are expected to be integrated into all activity supported through the fund.

Zero Waste Scotland has engaged to ensure sustainable and climate related indictors will be developed to increase focus on this key issue.

Next Steps

Alignment with Scottish priorities may not be possible should the UK scheme be drafted to prioritise the UK Industrial Strategy or other UK designed policies such as the "Levelling Up" agenda. Further work on this is required once details of the conditions and constraints around the UK Scheme are known.

The devolution of greater levels of policy control to regional and sub-regional actors will create a range of differently weighted programmes across geographies. Whilst we understand that different stakeholders prioritise different issues, at a national level we must ensure this does not give rise to any unintended inequalities of access.

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

Section 5 Monitoring and Evaluation

This section sets out the principles that will shape a monitoring and evaluation plans once a fuller understanding of future funding arrangements are known.

Aims

There are three main aims for monitoring and evaluation:

- For policy purposes and for agreeing how aims/objectives should be both measured and met;
- To assess whether target outcomes are being achieved and to provide an understanding of the extent to which value for money assessed at the project appraisal stage is realised;
- For audit purposes and in determining how value for money should be safeguarded.

Focus

The monitoring and evaluation framework will focus on outcomes and outputs, rather than activities and inputs, and will seek to:

- explain what is to be achieved in terms of economic impacts, benefits for business, etc.;
- articulate a fit with pertinent strategic objectives within the NPF;
- identify the activities to deliver and the resources required to achieve the selected objectives;
- develop a logic model to evidence how the resources and activities will align with achievement;
- develop SMART objectives for assessing performance: identify key measures to track performance and ascertain how data will captured together with the roles and responsibilities of all involved; and
- plan for review and evaluation.

Principles

The development of monitoring and evaluation will be taken forward in parallel with the design of delivery arrangements in order that all partners have a clear understanding of the requirements, and their roles therein, in delivering the strategy.

The National Performance Framework will be used as an over-arching framework rather than a prescriptive list of indicators, and regional and sub-regional delivery partners will align their objectives to those of the NPF to ensure consistency in focus.

Within a monitoring and evaluation context the additionality of any support must be considered at the outset during the appraisal process for applications, to determine existing provision and to include benchmark data. The data collected at the outset and throughout the lifetime of support will inform subsequent interim reviews and evaluation.

The monitoring and evaluation framework should focus on the results that can be attributed to the replacement fund so that the evaluation can demonstrate the added value of the fund. It should also be proportionate to the activity supported.

Monitoring and evaluation activity will reflect Scottish Government's focus on economic, social and wellbeing performance when deciding on indicators to monitor and evaluate but should maintain awareness of how the next set of EU Cohesion Programmes will be delivered in the 2021-27 period.

Consideration should be given to how the Benefits Realisations Plan concept, as designed for Scotland's City and Region Growth Deals, might be adapted for use by a similar partnership delivery structure in the assessment of financial support provided through the UKSPF.

Next steps

Project appraisal was not considered in detail as part of this work, and therefore a separate Appraisal Group will be set up to consider how the appraisal process will work within a tiered management system of delivery.

There was an acceptance that stakeholders would not welcome a return to the 'one size fits all' monitoring and evaluation regime of European Structural and Investment (ESIF) Programmes past. It is proposed that this be considered more fully following progression of the governance and delivery model.

Regulation and reporting is key to ensure the prevention of fraud and avoidance of risk and going forward this will continue. However going forward, the monitoring and evaluation approach will have a strong focus on achieving outcomes. As per comments on proportionality above, this needs further consideration following identification of the governance and delivery model to ensure both key objectives of regulation and reporting - risk avoidance and outcomes delivery – are included.

Timeframe – knowing when to evaluate the success of the replacement fund against results or outcomes as defined at a national level (but regionally specific) was also considered essential. This requires further consideration.

Consideration should be given to the conditionality of payment, in other words the relationship between expenditure, activity and achievement of outcomes and whether payment should be linked to achievement in full, part, or otherwise.

Annex A Draft Roles and Responsibilities

THEME	TOPIC	UK Government	Scottish Government	Regional Economic Partnerships (REP)	Local Authorities and Community Actors	National Agencies
Funding and Allocation	**Allocation methodology**	Responsible for deciding the allocation and transferring funds to Scottish Government.	Develop a needs-based allocation methodology that will set out how much each REP will receive for the a multi-year (5 year) period	Develop an allocation methodology in partnership with local authorities and community actors, that suits the needs of the region.	Work with REPs to develop allocation model.	Work with regional partnerships and agree contract for services in line with regional plans.
	Spend	Transfer funds to SG for onward allocation.	Transfer funding to an accountable body in each regional partnership. Funding will be committed on a multi annual basis and paid on a staged basis.	Transfer funding to sub regional activities and bodies.	Spend on projects.	Regional partnerships pay National Agencies for contracted services.
Policy	**Policy development**	Overall development of UK SPF (in partnership with devolved nations).	Development of policy aims and objectives for Scottish Programme, aligned to National Performance	Development of regional programme that fits with in Scottish Framework.	Contribute to development of regional programmes.	Development of specific policy responses in line with regional needs.

THEME	TOPIC	UK Government	Scottish Government	Regional Economic Partnerships (REP)	Local Authorities and Community Actors	National Agencies
			Framework and Inclusive Growth Ambitions. Programme designed and delivered on a multi annual basis.			
Governance and delivery	**Organisational structure**	Supra national strategic oversight.	Develop overall aims and objectives and agree programmes with regional partnerships. Allocate funding and oversee regional spend and performance.	Lead delivery of the regional programme and ensures that the aims an objectives are being met at regional level. Ensure compliance, audit and value for money using existing systems.	Deliver specific projects and actions in line with regional plan.	Deliver to the requirements of the regional plans.
Monitoring and Evaluation	**Monitoring**	Ensure that Scottish programme meets UK Objectives.	Oversight of Scottish Programme; Report to UKG; Ensure that regional Programmes are meeting key outcomes.	Develop regional monitoring and evaluation frameworks and monitor progress of regional projects.	Check and verify project spend and objectives.	Check and verify project spend and objectives.

THEME	TOPIC	UK Government	Scottish Government	Regional Economic Partnerships (REP)	Local Authorities and Community Actors	National Agencies
	Evaluation	Ongoing evaluation of UK Programme.	Evaluate the effectiveness of the Scottish programme and work with regional partnerships to develop monitoring and evaluation frameworks for regional programmes.	Evaluate overall regional programme.	Individual project evaluations.	Individual project evaluations.
	Appraisal	Agree plans with DAs.	Agree with regional partnerships programmes of activity.	Appraise projects within regional programmes.	Business cases for specific projects and activities.	Business cases for specific projects and activities.

Annex B Steering Group and Contributors to Development Process

1. The Scottish Government has been working with a Steering Group, chaired by Prof David Bell of University of Stirling and co-chaired by Prof John Bachtler of University of Strathclyde, to develop a Scottish programme to replace European Structural Funds following the UK's exit from the EU. A public consultation was held between November 2019 and February 2020 the results of which informed development of this outline plan.

2. The development of the plan was undertaken by the Scottish Government along with members of the Steering Group, other external stakeholders and Scottish Government policy leads. Four key areas were developed: Each group produced a paper which set out how they considered that their area should be taken forward and it is this work which underpins these plans.

3. Scottish Government officials chaired each group and drafted the papers. Hilary Pearce (Deputy Director, ESIF) and Darren McDowall (SG Finance Business Partner) also attended two of the groups.

Group	Members
Funding and Allocation	Prof David Bell (Univ. of Stirling and Steering Group Chair) Prof John Bachtler (Univ. of Strathclyde and Steering Group Co-Chair) Malcolm Leitch (SLAED and Steering Group) Cllr Dr Steven Heddle (Orkney Islands Council, CoSLA and Steering Group)
Governance and Delivery	Douglas Colquhoun (Scottish Enterprise and Steering Group) Francesca Giannini (Scotland Europa) Anna Fowlie & Jamie Flaherty (SCVO and Steering Group (Anna))
Monitoring and Evaluation	Cornilius Chikwama (SG – Office of the Chief Economic Advisor and Steering Group) Natalie Hemmings (SG – Office of the Chief Economic Advisor) Sheila Perry (Scottish Enterprise) Mary Louise Howatt (Argyll & Bute Council) Gary Richardson (SG – Internal Audit)
Policy Alignment	Rob Clarke (Highlands & Islands Enterprise and Steering Group)

Group	Members
	David Rennie (South of Scotland Enterprise and Steering Group) Amanda Fox (SG - Rural Economy and Steering Group)

Annex C Finance

1. This annex contains more information on how we arrived at the estimate of £1.283 billion for a replacement 7 year programme for 2021 – 2027.

Table 1. Full Replacement of EU Funding and LEADER, 2020-21 to 2024-25.[6]

Fund	Resource or Capital	Average allocation per annum £m	TOTAL £m
European Structural Funds – ESF and ERDF (ESIF)	Resource	**162**	**1,134,000**
European Territorial Co-operation Programmes (ETC)	Resource	**14**	**98,000**
LEADER	Resource	**7.263**	**50,841**
TOTAL	Resource	**183,263**	**1,282,841**

Calculations for ESIF and ETC

Uprating the Current Programme

- **Multiannual Financial Framework (MFF) 7 year timeframe: £1,130 million**
- **Average Annual amount: £162 million**

Method

- We have used the initial programme value based on the 2014-2020 EU Cohesion policy rules and does not take account of de-commitments which have taken place over the course of the programme.
- To arrive at the Multi-Annual Financial Framework (MFF) 7 year figure, we took the total amount allocated in Euros to Scotland for the 14-20 programme following the 2017 adjustment (€944 million or 8.4% of UK total), uprated it for inflation[7], and used a standard exchange rate of £1: €1.10 to give a figure of £1,130 million for the ESF and ERDF programmes.

[6] 20/21 only covers 3 months (Jan – March 2021); table assumes funding being provided upfront.

[7] From 2011 prices, in line with 2014-2020 Multiannual Financial Framework, to 2018 prices, in line with proposed 2021-2027 Multiannual Financial Framework.

- The exchange rate is the taken from Table 3.10 of the OBR Economic and Fiscal Forecast paper of March 2019[8] and is the average of the forecast rates from 20/21 onwards. For comparison the current exchange rate is £1: €1.10583.
- We have calculated the likely ceiling based on the EU capping rule[9] however, it is not entirely clear from the draft regulation how this would be calculated.

Adding Assumption for European Territorial Cooperation Programmes (ETC)

- **MFF 7 year timeframe: £98.0 million**
- **Average Annual amount: £14.0 million**

- The ETC is not allocated in the same way as other cohesion funds – it is determined by Scotland's success in bidding for projects under the various operations. We have therefore calculated Scotland's possible share using the current benefit to Scotland, as at February 2020, uprated for the same inflationary forecast and exchange rate estimates as those in the calculation of cohesion funding.

Calculations for LEADER

- **MFF 7 year timeframe: £50.8 million**
- **Average Annual amount: £7.263 million**

Assumptions and Caveats

- The consultation responses recommended a multiannual programme of at least 5 years if not longer. As the European funding operates in 7 year cycles, we have assumed that allocations will be for a 7 year replacement programme.
- We used a standard exchange rate of £1: €1.10. This is the taken from Table 3.10 of the OBR Economic and Fiscal Forecast paper of March 2019[10] and is the average of the forecast rates from 20/21 onwards. For comparison the current exchange rate is £1: €1.10583.
- The EU Cohesion rules (Article 11) notes that a cap of 108% applies to allocations - i.e. Member States can only receive a maximum of 108% of their 14-20 allocation.

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[8] https://cdn.obr.uk/March-2019_EFO_Web-Accessible.pdf Page 67 Table 3.10

[9] "11. The rules described in paragraph 10 shall not result in allocations per **Member State** higher than 108 % of their level in **real terms** for the 2014-2020 programming period. This adjustment shall be applied proportionately to all transfers (except for the European territorial development goal) to the Member State concerned in order to obtain the maximum level of transfer" https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A375%3AFIN

[10] https://cdn.obr.uk/March-2019_EFO_Web-Accessible.pdf Page 67 Table 3.10

Points to note

- As European Policy Research Centre research[11] states: "Importantly, there is not necessarily a direct link between the regional amounts generated through the formulae and the final allocation to Operational Programmes. Accordingly, the allocation of funding within the UK would not necessarily follow the Commission's methodology; in the past it has been based on a political agreement between the UK Government and the devolved administrations".
- There are other ways in which we could calculate a baseline figure. However, looking to similar and previous programmes, such as allocations across Local Enterprise Partnerships for the existing ESIF programme in England[12] or how city and growth deal settlements were arrived at, there is little transparency about this how these decisions were made.
- As noted in a judgement regarding allocations of structural funds in England[13], "There is no "right" answer prescribed by the EU Treaty or the 2013 Regulation to the question how EU Structural Funds should be distributed within a Member State. There is not even any clear principle on which this should be done. Instead, the Secretary of State was required to make a complex evaluation of a wide range of overlapping criteria, all of which involved difficult and sometimes technical judgments about matters of social and economic policy". Whilst we are now in a post structural funds world, this comment remains apposite.
- European Structural Funds and State Aid Division take cognisance of the potential implications associated with multi-year funding of a Shared Prosperity Fund and would advocate that in all cases funding should be given sufficient flexibility to allow acceleration and deceleration of programmes across multiple years without impact to overall funding levels. Further consideration is required as to how the ultimate funding methodology impacts on the current fiscal framework and the Scottish Government's reserve capabilities.

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[11] https://www.eprc-strath.eu/public/dam/jcr:ebf0a9fe-3a97-4162-800e-db82d4295682/EoRPA_13-4_Cohesion_Policy_Post_Conf.pdf. p9 footnote 13

[12] Some information on the LEPS delivery model can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/190880/13-747an-structural-and-investment-fund-strategies-preliminary-guidance-to-leps-technical-annex.pdf

[13] http://www.bailii.org/uk/cases/UKSC/2015/6.html para 22

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