
NORTH AYRSHIRE COUNCIL

18 February 2020

Cabinet

Title:	Scottish Government consultation on the replacement for European Union Structural Funds
Purpose:	To ask Cabinet to homologate the Council's response to the Scottish Government's consultation on the replacement of European Union Structural Funds in Scotland post EU-Exit.
Recommendation:	<p>It is recommended that Cabinet:</p> <ul style="list-style-type: none">a) Agrees to homologate the Council's response to the Scottish Government Consultation as detailed in Appendix 1;b) Agrees that the same underlying principles of the response are used to inform the Council's response to the anticipated UK Government's consultation on the proposed UK Shared Prosperity Fund;c) Agrees the Council's continued engagement with strategic national and regional networks, including Southern Scotland, to maximise support from UK and Scottish regional policy, funding and regulatory frameworks post EU-Exit.

1. Executive Summary

- 1.1 Scottish Government has launched a consultation on the replacement of European Structure Funds post-Brexit. This report outlines our response which is included within Appendix 1. It is also anticipated that the UK Government will soon launch a consultation exercise on the proposed UK Shared Prosperity Fund (UKSPF). The Council has been engaging with strategic national and regional networks, including Southern Scotland partners, to ensure that the needs of our communities and businesses are put forward strongly within these consultation exercises.

2. Background

- 2.1 European Regional Development Fund (ERDF) and European Social Fund (ESF) have been important to efforts by UK local authorities to address the UK's regional economic imbalances. Historically, North Ayrshire Council has received significant funding from EU programmes. The current EU Structural Funds programme covers the period 2014-2022. North Ayrshire Council has received allocations under four main programmes, which are listed below:

- Youth Employment Initiative
- Employability Pipeline
- Poverty and Social Inclusion
- Business Support (Ayrshire wide ERDF)

2.2 Analysis by the West of Scotland European Forum (WoSEF) has identified that 15-25% of Scottish Councils' spend on economic development activity comes from European funding and therefore securing a positive outcome from the UKSPF for North Ayrshire is crucial to our ongoing plans for inclusive economic development and regeneration, particularly at a time of constrained local government funding.

2.3 The UK Government has indicated its intention to provide successor funding to EU Structural Funds through its proposed UKSPF but there is little detail of what shape this will take, despite a consultation on this fund being promised for some time.

2.4 In terms of the current Scottish Government's consultation, Scottish Ministers have set out five non-negotiable principles to influence successor funding:

- 1) Scotland should not lose out financially compared to the current level of funding it receives from the EU;
- 2) The devolution settlement must be respected and there must be no attempt by the UK Government to take back powers that the Scottish Government has rightfully executed to date;
- 3) The Scottish Government's role in the development of the Shared Prosperity Fund should be as partners, not merely consultees;
- 4) The current level of flexibility of allocation of funds should not be reduced under post EU-exit funding arrangements;
- 5) The replacement should be operational from 1 January 2021 in order to be implemented in early 2021 so that our stakeholders do not suffer any difficulties due to funding gaps.

2.5 The Scottish Government's consultation focuses on:

- the aim and objectives of post EU Exit funding in Scotland;
- how to maximise its added value;
- the extent to which it should be aligned with Scottish, UK and EU policy priorities;
- whether and how it should be concentrated thematically or geographically;
- the appropriate arrangements for monitoring and evaluation;
- and the most effective and efficient approach to governance and partnership.

2.6 The consultation closed on 12 February 2020 and the Council's response included at Appendix 1 was submitted prior to the deadline.

Reducing regional inequalities and achieving an inclusive economy

2.7 The key points from the Council's response are outlined below:

- The purpose of a replacement fund should be focused on reducing the stark levels of regional inequalities in the UK. Reports published in 2018 and 2019 by ONS, the UK's independent national statistical body, show Southern Scotland NUTS2 region (Dumfries and Galloway, Scottish Border, South Lanarkshire Council and the three Ayrshire Councils) to be the region with the lowest GDP per head in the UK, and that it has been in this position for the past twenty years. A new regional policy is required to support fragile regions such as Southern Scotland NUTS2.

- The new Fund needs to support projects that are strategically significant at a regional or local level in terms of promoting a sustainable inclusive economy. There should be more flexibility to use funding to meet regional and local needs and contribute to key priorities such as inclusive economy, Community Wealth Building and net zero carbon. Programmes need to be structured in ways that deliver support more efficiently, flexibly and with more local control. Local authorities can play strong and effective roles at the heart of decision making and management arrangements for the UKSPF.
- A multi-annual approach is necessary to address the complex and deep-rooted causes of regional inequality
- Meaningful consultation by the UK Government on the new UKSPF is essential, however time is running out and there has been no formal consultation with local authorities. To avoid a hiatus in activity, UKSPF needs to be in operation from January 2021 and, as such, key framework and financial decisions are needed soon, particularly to allow for budget and programme planning.

Strategic engagement

2.13 The Council has been engaging with a range of strategic and regional partners to develop joint responses to replacement programme consultation to promote North Ayrshire and wider Ayrshire interests: Convention of Scottish Local Authorities, Scottish Local Authority Economic Development network, Industrial Communities Alliance, Highlands & Islands European Partnership, West of Scotland European Forum and the Southern Scotland network (Dumfries and Galloway Council, Scottish Borders Council, South Lanarkshire Council and the three Ayrshire Councils).

2.14 This includes a meeting in Irvine in December where officers from Southern Scotland authorities agreed actions to highlight the NUTS2 region's aspirations with respect to the replacement programmes, including:

- Developing a joint letter from Southern Scotland Councils to UK Government and Scottish Government;
- Engaging with local MPs and MSPs to highlight the regional case and requesting support;
- Working jointly to ensure that Scottish level responses - particularly those submitted by CoSLA and SLAED – reference the position of Southern Scotland and recognise the potential to maximise support to Scotland's regions by pressing the case for targeted support to Southern Scotland.

3. Proposals

3.1 It is recommended that Cabinet:

- a) Agrees to homologate the Council's response to the Scottish Government Consultation as detailed in Appendix 1;
- b) Agrees that the same underlying principles of the response are used to inform the Council's response to the anticipated UK Government's consultation on the proposed UK Shared Prosperity Fund;
- c) Agrees the Council's continued engagement with strategic national and regional networks, including Southern Scotland, to maximise support from UK and Scottish regional policy, funding and regulatory frameworks post EU-Exit.

4. Implications/Socio-economic Duty

Financial

4.1 None at this stage in the consultation process.

Human Resources

4.2 None at this stage in the consultation process.

Legal

4.3 None at this stage in the consultation process.

Equality/Socio-economic

4.4 The Council's response sets out that future funding should contribute to reducing regional inequalities and achieving an inclusive economy.

Environmental and Sustainability

4.5 The Council's response sets out that future funding should contribute to tackling climate change and the transition to a low carbon economy.

Key Priorities

4.6 The proposals and response contribute towards the following Council Plan key priorities:

- North Ayrshire has an inclusive, growing and enterprising economy
- North Ayrshire's residents and communities enjoy good life-long health and well-being
- North Ayrshire is well-connected with effective infrastructure
- North Ayrshire is a sustainable environment
- North Ayrshire is a vibrant, welcoming and attractive environment

Community Wealth Building

4.7 The Council's response sets out that future funding should reflect the wider aims of Community Wealth Building.

5. Consultation

5.1 The Council is working with key partners noted above to develop joint responses to consultations on domestic replacements for EU programmes. NAC officers participated in a Scottish Government consultation event in January 2020. The Ayrshire Regional Economic Joint Committee in June 2019 agreed a regional approach to engaging with Southern Scotland.

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For further information please contact **Julie McLachlan, Senior Manager – Economic Policy**, on **01294 324999**.

Background Papers

Appendix 1: North Ayrshire Council response to Scottish Government consultation on the replacement for European Union Structural Funds

NORTH AYRSHIRE COUNCIL RESPONSE TO SCOTTISH GOVERNMENT CONSULTATION ON THE REPLACEMENT OF EUROPEAN STRUCTURAL FUNDS IN SCOTLAND POST EU-EXIT

February 2020

A) STRATEGIC AIMS

Objectives

Scottish Ministers want to take this opportunity to design a flexible source of additional funding that drives inclusive economic growth and makes a measurable and significant difference to the lives of people, businesses and communities across Scotland. With this in mind:

- 1. What are the main aims that this funding should seek to achieve?**
- 2. How could funding be used most effectively to address spatial inequalities between areas and communities in Scotland?**
- 3. Geographically, at what level would the priorities for funding be best set?**

North Ayrshire Council welcome this consultation and would be happy to discuss any aspects of this submission. The Council has extensive experience of EU funding and delivering programmes to address the diverse needs and opportunities of our communities and businesses across North Ayrshire's strategic investment sites, towns, rural and island communities. Replacing EU funding with the right type and level of domestic funding via a strong regional policy is critical if we are to achieve an inclusive economy in fragile post-industrial regions like Ayrshire

Stark levels of regional inequality in the UK have been well-documented, however this is also an issue impacting the Scottish economy and our ambitions of an inclusive wellbeing economy. The Fraser of Allander Institute (2018) have recently highlighted this in their economic commentary: GVA per head in Edinburgh is nearly 2.5 times higher than in East and North Ayrshire. In the past 20 years this gap has widened – GVA per head in Edinburgh has nearly doubled since devolution, with growth in East and North Ayrshire around half that rate.

North Ayrshire Council recognise that in an increasingly challenging economic environment, we have to work in new ways in order to deliver an inclusive economy. As a result, working in partnership with the Scottish Government's Office of Chief Economic Advisor, the Council piloted the 'Inclusive Growth Diagnostic'. The main purpose of the Diagnostic was to identify constraints and opportunities for driving inclusive growth in North Ayrshire in order to prioritise actions to address them at a time of constrained public sector resources. Jobs density was one of the key constraints identified by the diagnostic – indeed North Ayrshire has one of the lowest job densities in Scotland – and this highlights that the Council is unable to achieve inclusive growth without a change in national policy and investment, and as such investment should be targeted where there is most need, for example areas of market failure, and where impact will be greatest.

The failure of current ESIF programmes and approaches to address the different challenges and opportunities faced by Scotland's regional and local economies was recognised in 2018 by the Scottish Parliament's Economy, Jobs and Fair Work Committee. Following an inquiry into existing and future programmes, the Committee concluded that this failure should be addressed in successor programmes if inclusive growth is to be delivered in Scotland. Similar conclusions and recommendations have been reached at a UK level by an All Party

Parliamentary Group (APPG) investigating post Brexit funding in 2018, and by a House of Commons Committee Inquiry into the role and function of replacement funds in 2019.

There is a need for a new National Regional policy which aims to build on European Cohesion Policy with its focus on tackling regional economic imbalances and problems at NUTS2 level. These aims should be underpinned by the principles of interventions being required to focus on inclusive economies and sustainable development which aligns with the need to combat climate change and increase local wealth.

UKSPF resources need to be allocated in fair and transparent ways that give priority to the development needs of less prosperous regions such as the Southern Scotland NUTS2 region which includes Ayrshire.

Traditionally the EU uses Gross Domestic Product (GDP) per head in NUTS2 regions as the primary indicator for calculating the quantum and nature of assistance needed to support the union's economic and social cohesion. NUTS2 is the statistical geography agreed with Member States as the base for calculations, with each region classified as less developed, transition or more developed, depending on how its regional GDP per head compared to the EU average. EU programmes use these classifications to target funding and regulatory support, with less developed and transition regions securing higher level, and more flexible, support than more developed regions. This targeted approach extends beyond EU Structural and Cohesion Funds and is a key component of regulatory frameworks, particularly state aid. This ensures that less developed and transition regions operate under more favourable state aid terms than more developed regions. The Council believes this approach should continue for replacement funds.

The proposal for a fifth NUTS2 region, Southern Scotland, was approved by Scottish Government and finally agreed by UK Government and the European Commission in 2017. Local authorities in the south of Scotland have long argued that the former NUTS2 geographies masked significant intra-regional inequalities in Scotland. Southern Scotland NUTS2 comprises the area covered by the three Ayrshire local authorities, except for the North Ayrshire islands, alongside the areas covered by South Lanarkshire, Dumfries & Galloway and Scottish Borders Councils. Adjustments were made to the NUTS2 boundaries of West Central Scotland and Eastern Scotland, and the revised NUTS2 regions came into force in January 2018.

CPMR (European Conference of Peripheral Maritime Regions), an influential body in EU circles, published a report shortly before the last UK General Election which projected that Southern Scotland, the Highlands & Islands and West Central Scotland NUTS2 regions would have been awarded substantial packages of support from the EU had the UK not taken the decision to withdraw its membership. It projects that UK regions would have secured €13 billion euros in 2021-27. This level of increase would have had a very substantial impact on the overall funding pot the UK would have been able to secure, and had the potential to transform the seven UK NUTS2 regions which CPMR projects would have been classified as less developed, including Southern Scotland. For these the combined regions, Cohesion funding allocation in 2021-27 is projected as £3.8 billion.

Reports published in 2018 and 2019 by ONS, the UK's independent national statistical body, show Southern Scotland to be the NUTS2 region with the lowest GDP per head in the UK, and that it has been in this position for the past twenty years.

Alignment with Scottish Policy and Other Funding Streams

Scotland has a set of high-level strategic documents that guide the direction of our policy development and spend. These are focussed on inclusive economic growth and include our

National Performance Framework, our Economic Strategy, our Programme for Government and our new Enterprise and Skills Strategic Board approach.

4. How could the use of future funding add value to other sources of funding focussed on similar objectives in Scotland?

The new Fund needs to support projects that are strategically significant at a regional or local level in terms of promoting sustainable inclusive growth. This is likely to include activity which currently benefits from EU support, such as business competitiveness and employability and skills programmes. It should contribute to the wider aims of Community Wealth Building including a fair and resilient local economy and labour market, with diverse business models. Where appropriate, UKSPF could also include support for capital project activity e.g. development of sites and premises for business and industry, tackling climate change and the transition to the low carbon digital economy, development of low carbon transport infrastructure.

Alignment with UK and EU Policy

The UK Government has said that the SPF will be aligned with its Industrial Strategy and will focus on increasing productivity. At the same time, the European Union is evolving its Cohesion Policy with a structure of 5 themes: A Smarter Europe; A Greener, carbon free Europe; A Connected Europe; A More Social Europe; and A Europe closer to citizens, to create a more tailored approach to regional development in order to drive EU investments.

- 5. What practical value would you see in future funding in Scotland being aligned with the UK Industrial Strategy and other spatially-differentiated UK economic policies such as the City and Regional Deals or the Industrial Strategy's sectoral approach?**
- 6. What practical value would you see in maintaining alignment with EU Cohesion Policy?**

In terms of levels of decision making and autonomy, NAC believe subsidiarity will be critical if the UKSPF is to succeed. The funding should be aligned with Scotland's economic strategy and the NPF's focus on inclusive growth and wellbeing, and its approach to regional economic development with a focus on those regions in need of additional investment to promote an inclusive economy such as the Southern Scotland NUTS2 area.

The purpose of EU Cohesion Policy is to reduce the significant strategic imbalances which exist between nations and within the regions of those nations.

It might also be useful to maintain linkages with the next phase of EU Cohesion Policy. In practical terms this would be of use in facilitating access to the 2021-27 generation of European Territorial Cooperation programmes, though this is dependent on the UK buying in to these programmes. If the funds for these are to come from UKSPF, its budget needs to be increased to accommodate them.

It is in the joint interests of the UK and EU for a long-term economic relationship to be agreed. In mirroring EU regional policy development, a common policy language can be maintained, helping to ensure that the competitive advantage liable to be delivered by cohesion policy in the EU is matched by developments in the UK. The recognition of NUTS2 Less Developed Regions within the UK in alignment with the EU would be an important contribution to this.

Evaluation and Monitoring Progress

In order to ensure that any new fund is achieving its aims and objectives, it is important that an evaluation approach is developed in parallel.

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

8. **What relevant parts of the National Performance Framework should this funding be targeted towards?**
9. **Which specific aspects of the monitoring and evaluation framework from European Cohesion Policy do you consider would be beneficial to retain for any new fund?**

UKSPF programme targets should be set to reflect the contribution they make to narrowing inter and intra-regional disparities and the National Performance Framework and Scottish Government's inclusive growth outcomes, using key inclusive growth indicators such as GVA and labour market participation but also wider measures, NAC are keen to share learning from the Inclusive Growth Diagnostic.

The longer term focus of programmes should be on the additionality of economic, social and environmental programmes.

B) GOVERNANCE STRUCTURES OF FUTURE FUNDING

Allocation and Programme Duration

Whilst funding allocations will largely be determined by our objectives, we must make sure that our approach is developed in an appropriate manner which is sensitive to differing needs across Scotland. We also need to be clear about the timeframes over which any funding programme would operate.

10. **What approach should be used to allocate the funding at programme level - including the most effective duration of the programme that would better support the identified priorities?**
11. **What would be the most appropriate partnership and governance structure to achieve the strategic objectives of the future funding?**
12. **What would be the most effective delivery model to ensure maximum leverage of funds from public and private sectors to regional investments?**
13. **What capacity-building or other support is needed to ensure the ability of local partners and communities to participate in the programme?**
14. **What can be learned from the design and delivery of the current and previous European Structural Fund Programmes in Scotland?**

Subsidiarity to regional and local economies is important and allocations should align to NUTS2 areas.

NAC's experience is that support allocated over a sustained period is more likely to achieve objectives than a series of disconnected, time-limited and small scale initiatives. The seven year period currently operated by EU funding should be considered. We believe a multi-annual approach is necessary to address the complex and deep-rooted causes of regional inequality. This approach is further recommended as it would facilitate longer-term strategic planning, attract additional investment and underpin subsidiarity and a multi-level governance approach.

Decisions on the right mix of funding and means to delivery interventions to secure inclusive growth will be much more likely to succeed if further devolved to reflect Scotland's diverse regional economies.

One of the difficulties with the Scottish Government's current approach to ESIF has been the desire to implement a central framework. Programmes need to be structured in ways that deliver support more efficiently, flexibly and with more local control. Local authorities can play strong and effective roles at the heart of decision making and management arrangements for the UKSPF. The drive to support inclusive growth requires flexibility at the regional and local level to determine the right mix of funding to business, communities and investment in

economic infrastructure. Intervention works best when developed and delivered at the right spatial scale.

A major Structural Funds defect has been the increasingly onerous requirements for verification, compliance and audit. The process should be kept simple and there be a greater degree of trust in local authority financial management and audit procedures than what there has been for previous programmes.

Meaningful consultation by the UK Government on the new UKSPF is essential, however time is running out and there has been no formal consultation with local authorities. This is disappointing. To avoid a hiatus in activity, UKSPF needs to be in operation from January 2021 and, as such, key framework and financial decisions are needed soon, particularly to allow for budget and programme planning.

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