Scottish Borders COUNCIL

ITEM [insert Item No.]

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

Report by the Chief Executive

SCOTTISH BORDERS COUNCIL

30 January 2020

1 PURPOSE AND SUMMARY

1.1 **The report seeks approval from Members for the Scottish Government's consultation on the Replacement of the European Structural Funds in Scotland Post EU-Exit.**

1.2 On 5 November 2019 the Scottish Government released a consultation paper (https://www.gov.scot/publications/replacement-european-structural-funds-scotland-post-eu-exit/) aimed at providing input into its policy dialogue with UK Government on the development of a new funding instrument. This will be the UK Shared Prosperity Fund, which has been previously announced by the UK Government as its replacement for European Union Structural Funds (i.e. European Regional Development Fund and European Social Fund). European Structural Funds are an important source of funding to support economic development and training. The deadline for responses to the consultation is 12 February 2020. The Scottish Government has indicated that its consultation excludes European funding such as LEADER, Fisheries etc. which will be handled separately.

1.3 The proposed response (see Appendix 1) indicates that the UK Shared Prosperity Fund should focus on tacking regional economic inequalities with the aim of improving economic cohesion across Scotland and the UK. NUTS 2 regions should be used to identify regions of intervention as they provide a geography with consistent regional economic data and are strategic enough to address the different economic challenges which are experienced across Scotland and the UK. This regional geography includes the new Southern Scotland NUTS 2 statistical area which was officially recognised in 2017. The Southern Scotland NUTS 2 area comprises the local authority areas of Dumfries and Galloway, Scottish Borders, South Ayrshire, East Ayrshire, North Ayrshire (excluding Arran and the Cumbraes) and South Lanarkshire. To recognise relative prosperity the measure of Gross Value Added (GVA) per head should be used as this provides a measure of productivity and income produced in regions.

1.4 The Southern Scotland NUTS 2 area has the lowest GVA per head of all the NUTS 2 regions in Scotland and the UK. Recently released economic statistics show that this has been case for the past 20 years, but has been masked because of the inclusion of its geography in wider city based NUTS 2 areas. The lack of recognition of Southern Scotland as a NUTS 2 region has meant that the area has been unable to access significant amounts of monies from the EU Structural Funds.

2 RECOMMENDATIONS

2.1 **I recommend that the Council agrees to the response to the Scottish Government's consultation on Replacement of the European Structural Funds in Scotland Post EU-Exit, as set out in Appendix 1.**

3 BACKGROUND

3.1 European Structural Funds have been an important tool in addressing regional differences in economic performance across Europe for a number of decades. As a result of the United Kingdom's withdrawal from the European Union, ongoing access to these funds will cease. The UK Government announced its intention to replace the European Structural Funds with a UK Shared Prosperity Fund. A Consultation by the UK Government has been delayed because of the UK General Election. On 5 November 2020 the Scottish Government released a consultation paper (https://www.gov.scot/publications/replacement-european-structural-funds-scotland-post-eu-exit/) aimed at providing input to its policy dialogue with UK Government on the development of this new funding instrument. The deadline for responses is 12 February 2020. The Scottish Government has indicated that its consultation excludes European funding such as LEADER (Rural development), Fisheries etc. which will be handled separately.

3.2 In the past, the Scottish Borders and the South of Scotland benefited from the European Structural Funds. This funding was allocated by programmes including the Scottish Borders Objective 5b programmes 1994-99; South of Scotland European Regional Development (ERDF) Objective 2 programme 2000-2006; Scottish Objective 3 (European Social Fund) Programme 2000-2006; and the Lowlands and Uplands Scotland (ERDF) programme 2007-2013.

3.3 These programmes achieved strong economic outcomes and outputs and provided around £60 million of support to a range of initiatives including the provision of business sites and premises; regeneration projects; tourism initiatives; business advice; training programmes; financial support to businesses; and business marketing assistance. Examples of projects included Ettrick Riverside in Selkirk, Borders Union Showground, Heart of Hawick, 7Stanes Mountain Biking Centres, the Scottish Borders Campus and business infrastructure in Eyemouth.

3.4 It has proved difficult to attract ERDF and ESF assistance for projects from the EU Structural Funds in the South of Scotland since 2010 because:

- The area was not part of a NUTS 2 region benefiting from higher levels of EU support and increased intervention levels, unlike the Highlands and Islands, despite its very low level of Gross Value Added (GVA) per head.
- An increasingly national approach has been taken by the Scottish Government to the allocation of EU Structural Funds with a focus on distributing funds directly through Agencies.
- Of the high levels of match funding needed to fund projects within the national programmes and the onerous and shifting audit requirements.

3.5 The low levels of Gross Value Added (GVA) per head in the South of Scotland would have led to Southern Scotland being designated by the European Union as a less developed region. This would have placed the South of Scotland in the same category as West Wales and Valleys and Cornwall and the Scilly Isles which have received large amounts of investment from the European Structural Funds. The reason this did not happen was that the South of Scotland was grouped together in NUTS2 European statistical areas with more prosperous urban city areas. Dumfries & Galloway was part of South Western Scotland which included

Glasgow, and the Scottish Borders was part of Eastern Scotland along with Edinburgh. A number of efforts were made over the last two decades to change the NUTS 2 boundaries in Scotland to better reflect the economic challenges in the South of Scotland.

3.6 Following feedback from the Scottish and UK Governments that the population of the South of Scotland (i.e. Dumfries and Galloway and Scottish Borders) was too small to be designated as a NUTS 2 statistical region, a wider Southern Scotland area proposal was developed with South Lanarkshire Council and the three Ayrshire local authorities. This was accepted in 2017 by Scottish Government, UK Government, and the European Commission.

3.7 The new NUTS 2 GVA statistics that included the new Southern Scotland NUTS 2 area were published in 2018. Updated GVA figures were published in December 2019. This shows that Southern Scotland is the NUTS2 area with the lowest GVA per head in the UK (LINK). During the entire period from 1998 to 2018, the Southern Scotland GVA per head has been below that of both West Wales and the Valleys and Cornwall & the Isles of Scilly and over these years these areas have benefited from significant levels of investment from the European Structural Funds.

3.8 In November 2019, the European Conference of Peripheral Maritime Regions (an influential group in EU circles) published a report (LINK) which looks at GVA figures for the UK's NUTS 2 statistical regions and calculates, using standard EU methodology, the category of support each region could have been expected to secure from the EU in the period 2021-2027 if the UK remained a Member State. CPMR calculates that Southern Scotland NUTS 2 would be designated as one of the UK's seven *'less developed regions'*.

3.9 The CPMR indicates that this designation would have led to transformative-level financial investment in the UK's seven *'less developed'* regions including Southern Scotland in 2021-27: at least £3.8 billion from the EU, with the expectation of further support from UK and Scottish Governments on top of this.

4. RESPONDING TO THE CONSULTATION

4.1 The Scottish Government consultation paper on 'The Replacement of European Structural Funds in Scotland Post EU-Exit' lists five 'non-negotiable points' which Scottish Government has considered should influence any replacement funding. These are:

- Scotland should not lose out financially compared to the current level of funding it receives from the EU.
- The devolution settlement must be respected.
- The Scottish Government role in the development of the Shared Prosperity Fund should be as partners, not merely consultees.
- The current level of flexibility of allocation of funds should not be reduced under post EU exit funding arrangements.
- 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.

4.2 The consultation questions cover the Strategic Aims i.e. the Objectives, Alignment with Scottish Policy and Other Funding Streams; Alignment with UK and EU Policy; Monitoring and Evaluation; and Governance Structures covering Allocation and Programme Duration.

4.3 It is considered that the UK Shared Prosperity Fund should focus on tacking regional economic inequalities with the aim of improving economic cohesion across Scotland and the UK. There are a number of different geographies that could provide the basis for allocation of the Post-EU Structural Funds regional support. Based on experience, there are four potential geographies that could be chosen by Government:

a) City Region areas: There are now a number of obvious city-region areas active, particularly through City/Growth Deals. These areas are likely to be attractive to the Governments as a focus for investment and provide a suitably strategic level. However, this scale of area masks the economic challenges facing South of Scotland and other rural areas.

b) NUTS 2 Regions: These areas are EU statistical regions that have been used by the EU to assess and prioritise funding in the past. There is a strength in using this scale as it has recently been amended to recognise the economic challenges of Southern Scotland. In the past, Scotland missed out on significant allocations of EU funding because of the problems masked by the Eastern Scotland/South Western Scotland NUTS 2 demarcation which included city and urban areas.

c) Local Authority Areas: It is considered this scale is neither strategic enough to tackle strategic economic challenges, nor local enough to address economic 'need' in a detailed way. Allocating funds on this basis alongside normal Local Authority budget allocations may cause confusion and lose the potential for additionality.

d) Local areas based on Scottish Index of Multiple Deprivation: SIMD geographies are very local, 'output area' scale areas. This would be an effective way of targeting need, but limits the potential to take a strategic approach, and to properly take advantage of local opportunities. This approach would disadvantage rural areas like the South of Scotland as there are relatively fewer 'most-disadvantaged' SIMD areas.

4.4 Based on this appraisal of potential geographies there is need for a new National Regional policy which builds on the strengths of European Cohesion with its focus on tackling regional economic problems at NUTS 2 level. This approach would provide for the Southern Scotland NUTS 2 area to be recognised as a less developed region for funding purposes from the UK Shared Prosperity Fund. It is also in the interests of the Scottish Government to support NUTS 2 statistical areas as a basis for regional economic intervention as it is considered that this would maximise the resources from the UK Shared Prosperity Fund to be allocated to Scotland.

4.5 This view is in line with the significant lobbying efforts being made by those Councils in England led by Cornwall County Council who are using their status as less developed NUTS 2 statistical regions with a very low GVA per head to enhance their position for allocations from the future UK Shared Prosperity Fund.

4.6 The monies from the UK Shared Prosperity Fund to Southern Scotland NUTS 2 could be used to:

- Underpin and complement the regional economic development programme that will be developed by the South of Scotland Regional Economic Partnership and the South of Scotland Enterprise Agency together with the investments to be made by the Borderlands Inclusive Growth Deal and the Edinburgh and South East Scotland City Region Deal.
- Focus on supporting projects and programmes within the Scottish Borders and South of Scotland which promote cohesion and convergence and sustainable economic growth.
- Support sustainable and low carbon economic growth transformation approaches to economic development, the development of place, and innovation approaches to economic development in its widest sense.

4.7 Discussions have been held with officials from Dumfries and Galloway Council, South Ayrshire, East Ayrshire and North Ayrshire Councils and South Lanarkshire Council and the there is an agreement that there is a need to make a strong case for the Southern Scotland NUTS 2 statistical area to be a priority for funding from the UK Shared Prosperity Fund because of its his very low level of GVA per head. This provides the basis of the proposed response.

4.8 There is also a need to link this approach to changes in the UK Government's Regional Aid map which is due to be revised by the end of 2020 to ensure less developed regions including the Southern Scotland NUTS 2 area can access the highest levels of state aid to support businesses and social enterprises.

4.9 Learning from the European Structural Funds supported programmes, it is considered that programmes supported by the UK Shared Prosperity Fund should:

- Have regional and locally determined priorities
- Provide additional resources to economic development and training programmes and projects
- Show flexibility and provide for challenge funding aimed at attracting more external funding to regions
- Be simply administered.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications for the Council arising from this report. The outcome of this consultation could result in significant additional monies to support the economic development of the Scottish Borders which would also be of benefit to the Council.

5.2 Risk and Mitigations

The response seeks to mitigate the risks to the Scottish Borders of the replacement of the European Structural Funds. The risks are that the replacement will not meet the economic development needs of the Scottish Borders because of a lack of recognition of the importance of prioritising funding from the proposed UK Shared Prosperity Fund on the basis of NUTS 2 areas with very low levels of GVA per head. The response seeks to convince the Scottish Government of the importance of making this case for Scotland and the Southern Scotland NUTS 2 area.

5.3 **Equalities**

The monies from the UK Shared Prosperity Fund could potentially be used to support economic development and training projects to support economic opportunities for women, disabled and ethnic groups and disadvantaged people and communities.

5.4 **Acting Sustainably**

Sustainable Economic Growth and promoting a Low Carbon economy would be a fundamental requirement of economic development projects and projects supported by the Shared Prosperity Fund in the area.

5.5 **Carbon Management**

It is envisaged that a Low Carbon economy would be a fundamental requirement of economic development projects and projects supported by the Shared Prosperity Fund in the area.

5.6 **Rural Proofing**

Rural areas would likely be a key beneficiary of funding arising from the Shared Prosperity Fund.

5.7 **Changes to Scheme of Administration or Scheme of Delegation**

There are no changes required to either the Scheme of Administration or the Scheme of Delegation.

6 CONSULTATION

6.1 The Council's Corporate Management Team, Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, Communications and the Clerk to the Council have been consulted on the report.

Approved by

Name **Rob Dickson** **Signature .....**

Title **Executive Director**

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