

APPENDIX 1

Draft Response by Scottish Borders Council to the Scottish Government's Consultation Paper on the Replacement of European Structural Funds in Scotland Post EU- Exit

Introduction

1. This paper sets out the proposed response to the Scottish Government's Consultation Paper on the Replacement of European Structural Funds in Scotland Post EU-Exit (i.e. The European Regional Development Fund and the European Social Fund) ([LINK](#)). It comprises a statement on the Consultation followed by responses to the individual questions asked by the Scottish Government.
2. The Scottish Government has indicated that the consultation excludes European funding such as LEADER, Fisheries etc. which will be handled separately. These funds are also very important to the Scottish Borders and South of Scotland together with other rural areas within Scotland, and it is considered a similar consultation process should be carried out for in relation to these funding sources.

South of Scotland and European Funding

3. In its description of European Funding in Scotland the consultation paper does not mention:
 - a. The pioneering contribution that Scotland has made to the development of regional policy in the European Union and the success of past ERDF regional development programmes within Scotland such as those in the Highlands & Islands and the South of Scotland.
 - b. The positive impact made by these regional programmes to national economic development.
 - c. The important contribution made in the past by challenge funding to ERDF funded regional development programmes in the Scottish Borders and the South of Scotland in providing match funding from public and voluntary bodies who would not have otherwise invested in the region, together with the innovative approaches to development that have come from this funding.
4. In the past, the Scottish Borders and the South of Scotland benefited significantly from European Structural Funds. The main programmes providing this support were 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.
5. These programmes resulted in around £60million of funding 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. These projects resulted in transformative economic diversification in key locations and significant increases in jobs.

6. 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:
 - a. The area was not part of a NUTS2 region benefiting from higher levels of EU support and increased intervention levels, unlike the Highlands & Islands, despite its very low level of Gross Domestic Product (GDP) per head.
 - b. 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.
 - c. The high levels of match funding needed to fund projects within the national programmes and the onerous and shifting audit requirements.

Approach to the Response to the Shared Prosperity Fund Consultation

7. European Cohesion Policy aims to reduce the regional economic imbalances within the European Union (EU). To tackle these regional imbalances monies are allocated by the EU to member states from the European Regional Development Fund (EDRF) and European Social Fund (ESF). The UK allocation for Cohesion Policy for the seven year period 2014-20 was €10.6 billion, so it is a significant investment.
8. The EU has traditionally used the indicator of Gross Value Added (GVA) per head in NUTS2 areas to identify the categories of regions to benefit from assistance arising from European Cohesion Policy. Three categories of NUTS2 regions are used for this purpose across member states. These are:
 - Regions with a regional GVA per head of less than 75% of the EU average are considered as **Less Developed Regions**. During the period 2014-20 there were no qualifying regions in Scotland and the only two such regions in the UK were West Wales and the Valleys, and Cornwall and the Scilly Isles.
 - **Transition Regions** which are regions with a regional GVA per head between 75% and 100% of the EU average. For 2014-20 the only region eligible in Scotland was the Highlands & Islands.
 - Those regions with an average regional GVA per head of over 100% are classed as **More Developed Regions**. In 2014-20 the rest of Scotland outside the Highlands and Islands was classified in this way.
9. It is Less Developed and Transition NUTS2 Regions that have received the highest levels of assistance from the EU.

The Importance of NUTS2 Regions

10. In Scotland in the period 2014-20 there were four NUTS2 areas i.e. Eastern Scotland, South Western Scotland, North Eastern Scotland and the Highlands & Islands. The Scottish Borders was included in the Eastern Scotland NUTS2 area and Dumfries and Galloway was included in the South Western Scotland NUTS2 area. The effect of this has been to mask the significant intra-regional

inequalities in economic performance between Scottish Borders and the wider Eastern Scotland NUTS2 area, and Dumfries & Galloway and the wider South Western Scotland NUTS2 area.

11. Since its formation in 2003 the South of Scotland Alliance has made the argument to the Scottish and UK Governments a number of times that the South of Scotland be considered as a Less Developed Region because of its very low levels of GDP per head. However, it was not reclassified as a NUTS2 area.
12. 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 NUTS2 region, a wider Southern Scotland area proposal was developed with South Lanarkshire and the three Ayrshire local authorities. This was accepted in 2017 by Scottish Government, UK Government, and the European Commission.
13. The new Southern Scotland NUTS2 area came into force in 2018. Tellingly, Southern Scotland is now the NUTS2 area with the lowest GDP per head in the UK ([see Table 1 below](#)). 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 which have benefited from significant levels of investment from the European Structural Funds.

Table 1: NUTS2 areas with the lowest GVA per head in 2018

NUTS2 areas	GVA per head	% of UK average
Southern Scotland	£17,028	59.3%
West Wales and The Valleys	£18,079	62.9%
Tees Valley and Durham	£18,787	65.4%
Cornwall and Isles of Scilly	£19,288	67.1%
South Yorkshire	£19,471	67.8%
Outer London - East and North East	£19,520	67.9%
Lincolnshire	£19,818	69.0%
Devon	£21,061	73.3%
Shropshire and Staffordshire	£21,318	74.2%
Merseyside	£21,660	75.4%
East Yorkshire and Northern Lincolnshire	£21,703	75.5%

Source: ONS – Regional Gross Value Added (Balanced) per head and income components [LINK](#)

Recognising the Southern Scotland NUTS 2 Region

14. In November 2019, the European Conference of Peripheral Maritime Regions (CPMR) (an influential group in EU circles) published a report ([LINK](#)) which looks at the updated GDP figures for the UK's NUTS2 statistical regions and calculates, using standard EU methodology, the category of support each region could have been able to secure from the EU in the period 2021-2027 if the UK remained a Member State. CPMR calculates that Southern Scotland NUTS2

would be designated as one of the UK's seven '*less developed regions*'. (see changes in Map 1 below)

15. The report highlights the stark regional inequalities in the UK. The difference between Inner London West, the richest NUTS2 region in the UK with a regional GDP average of 623.7% of the EU average, and Southern Scotland, the UK's poorest region with a regional GDP of 63.7% of the EU average, is particularly striking and a unique case in Europe.
16. Overall if the UK remained in the EU it is estimated by CPMR that UK regions would be entitled to a 22% increase in cohesion/regional funding in 2021-27, up from €10.6 billion to €13 billion euros, due primarily to the weaker regional economic performance relative to other EU NUTS2 regions. Due to the newly created Southern Scotland NUTS 2 area, a significant amount of that uplift would have come to Scotland.
17. Although the NUTS2 designation ('Southern Scotland') is different from the South of Scotland (i.e. the region covered by Dumfries and Galloway the Scottish Borders), the differential in performance and the consequences of that differential (relative to other NUTS2 regions) would be expected to have such an impact on funding levels as to deliver very substantial benefits to the Scottish Borders and South of Scotland within the Southern Scotland NUTS2 designation.
18. A table is included (*page 6, Table 1*) which shows this could/would have led to some transformative-level financial investment from the EU in the UK's seven '*less developed*' regions including Southern Scotland 2021-27: at least £3.8 billion from the EU, with the expectation of further support from UK, and Scottish, government on top of this.
19. The Scottish Government's current consultation is about the UK Shared Prosperity Fund as a Replacement of European Structural Fund. 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 the Scottish and UK Governments
 - 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 does mask 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' output 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.
20. Based on this appraisal of potential geographies and work described 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 interest of the Scottish Government to support NUTS 2 statistical areas as a basis for regional economic intervention and it is considered that this would maximise the resources from the UK Shared Prosperity Fund to be allocated to Scotland.
21. There are currently 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.
22. The monies from the 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.
 - Be focused 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.
 - Complement the regional economic development programme and projects that will be developed by the South of Scotland Regional Economic Partnership and South of Scotland Enterprise Agency

Alignment with State Aid Maps

23. 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 NUTS2 area can access the highest levels of state aid to support businesses and social enterprises.

Other Matters

24. Learning the 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.

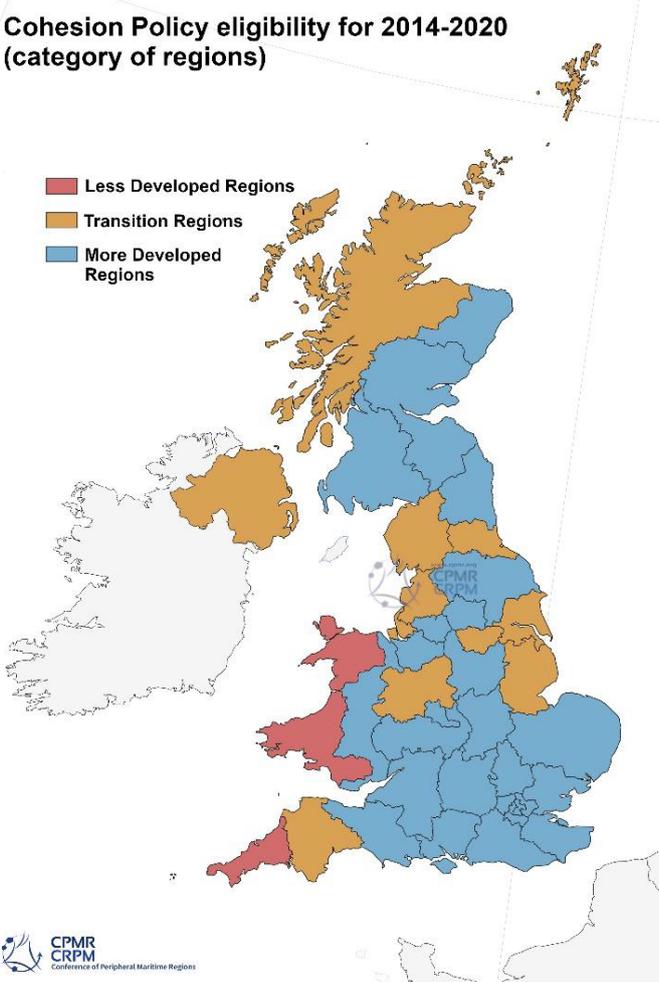
Summary

25. There is a need for a new National Regional policy which includes building on the strengths of European Cohesion Policy with its focus on tackling regional economic imbalances and problems at NUTS2 level with a focus on supporting areas such as Southern Scotland.
26. There is 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 NUTS2 area can access the highest levels of State Aid to support businesses and social enterprises.

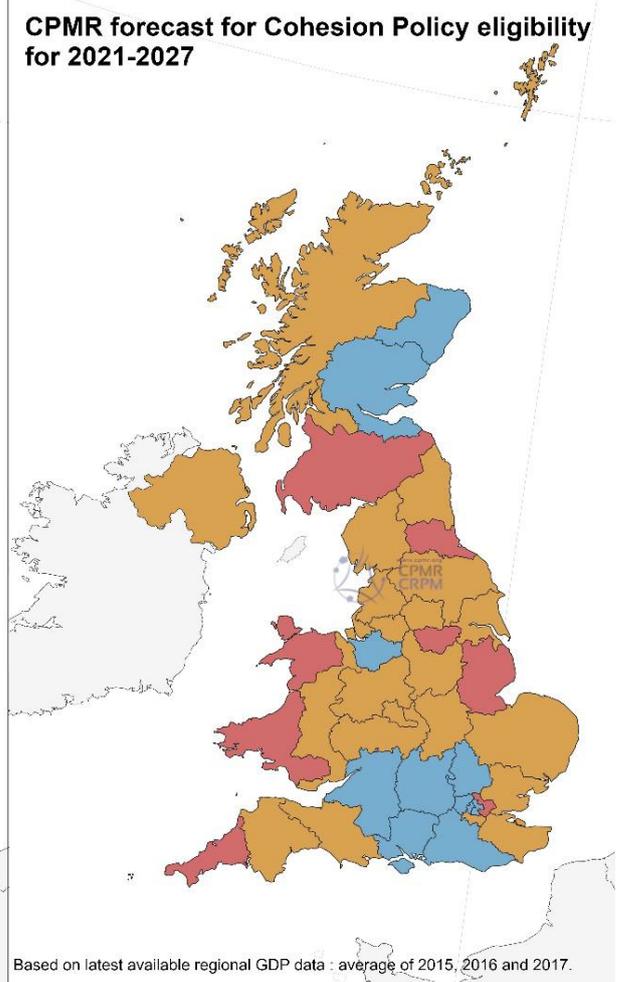
Map 1 – Comparison of Cohesion Policy regional eligibility in the UK: 2014-2020 vs 2021-2027 - (Source European Conference of Peripheral Maritime Regions)

**Cohesion Policy eligibility for 2014-2020
(category of regions)**

- Less Developed Regions
- Transition Regions
- More Developed Regions



**CPMR forecast for Cohesion Policy eligibility
for 2021-2027**



Based on latest available regional GDP data : average of 2015, 2016 and 2017.



DR

Responses (in italics) to the Questions set out in the Consultation Questionnaire

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?

There is a need for a new National Regional policy which aims to build on the strengths of European Cohesion Policy with its focus on tackling regional economic imbalances and problems at NUTS2 level. This approach is important for recognising the economic problems of the Scottish Borders, Southern Scotland and the South of Scotland. These aims should be underpinned by the principles of interventions being required to focus on inclusive economic growth and sustainable development which aligns with the need to combat climate change and biodiversity loss. There is a need to link this 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.

2. How could funding be used most effectively to address spatial inequalities between areas and communities in Scotland?

The focus of this funding should be NUTS2 regions such as Southern Scotland that require additional support for the purpose of tackling structural challenges arising from geography, population imbalance, and low wealth creation. That means supporting strategic and holistic regional economic programmes at scale rather than supporting individual elements.

Place is an essential element of this, so regional bodies within Southern Scotland NUTS2 area need to be empowered to make their own decisions of projects to be supported. The funding assistance needs to be long term i.e. 7 years and designed in such a way that resources can be applied flexibly to respond to the particular needs of the region.

3. Geographically, at what level would the priorities for funding be best set?

The geographic focus should be on NUTS2 regions where there are economic and social challenges such as Southern Scotland NUTS2 area. NUTS2 areas allows funding to be allocated at a strategic but also regional level. It is considered that using NUTS2 areas, could effectively deliver an uplift in funding for Scotland

as a whole, due to the inclusion of the Southern Scotland NUTS 2 area and the worsening of GVA per head levels in some other NUTS 2 areas.

Although not part of this consultation funding should continue for rural community economic development and development and diversification fishing communities through replacements for Leader and Fisheries Local Action Funds.

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 focused 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 support should add value to the delivery of the regional economic development strategies of NUTS2 regions such as the Southern Scotland to improve their economic convergence. This would mean that the funding would add value to funding to support economic development provided by the South of Scotland Enterprise Agency, local authorities and other partners.

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?

The funding should be aligned with Scotland's economic strategy and its approach to regional economic development with a focus on those regions in need of economic convergence such as the Southern Scotland NUTS2 area. This would mean support being used to provide additional support towards the implementation of the South of Scotland Regional Economic Strategy and South of Scotland Enterprise Agency programmes.

This approach recognises the profound differences in economic needs between the different nations of the UK and in turn the economic needs of the different

regions such as the Southern Scotland NUTS2 area. This emphasises the need for flexibility in support different regional economic programmes.

6. What practical value would you see in maintaining alignment with EU Cohesion Policy?

The purpose of EU Cohesion Policy is to reduce the significant strategic imbalances which exist between nations and the regions of those nations. If we are to optimise the potential of the weakest regions, then it is self-evident that much needs to be done to bring them up to the level of others, eliminating those strategic deficits, which are at the root of regional economic and social inequality.

There is a need to have a positive long-term economic relationship between the EU, the UK's largest market and this should be mirrored in the development of EU regional policy. This ensures a common policy language as well as ensuring 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?

The best evaluation of the support from this fund can be made in terms of ensuring its additionality in relation to the outcomes of regional economic development plans.

8. What relevant parts of the National Performance Framework should this funding be targeted towards?

All of the national outcomes have some relevance, but those for economy, education, fair work and business, poverty and the environment are especially significant.

The focus should be on supporting the sustainable and inclusive growth of regions such as the Southern Scotland NUTS2 area that require additional economic support and that links into the economic, educational, social and environmental aspects of the National Performance Framework.

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?

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

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?

A funding allocation for seven years should be made to each NUTS2 area to support economic development programme and projects. Some of this would consist of funding to provide additional assistance to programmes and projects and the other part should be used for challenge funding to attract match funding and support innovation. The significance of the 7 year funding cycle is that experience shows that there are very significant advantages for delivery in having timescales which support longer-term thinking, and offer stability and predictability.

11. What would be the most appropriate partnership and governance structure to achieve the strategic objectives of the future funding?

The economic assistance for Southern Scotland NUTS2 area would be governed primarily through its Regional Economic Partnerships which will have clear regional economic objectives.

12. What would be the most effective delivery model to ensure maximum leverage of funds from public and private sectors to regional investments?

In the Southern Scotland NUTS2 area the delivery agent would be through its Regional Economic Partnerships which comprises members from public and private sector partners.

13. What capacity-building or other support is needed to ensure the ability of local partners and communities to participate in the programme?

In the Southern Scotland NUTS 2 additional capacity should be built into the work of the Regional Economic Partnerships and the South of Scotland Enterprise Agency to engage partners and allocate and manage this funding on behalf of partners.

14. What can be learned from the design and delivery of the current and previous European Structural Fund Programmes in Scotland?

There is a need to keep the process simple and have simple audit arrangements and focus on the regional level to get ownership from regional and local partners.