

Replacement of the European Structural and Investment Funds (ESIF) Post EU Exit Update

Purpose

1. The aim of this paper is provide members of CoHI with an update on the current development of the intended replacement of the European Structural and Investment Funds (ESIF) following the UK's withdrawal from the European Union.

Background

2. Made up of both the European Social Fund (ESF) and European Regional Development Fund (ERDF), ESIF Programmes has played a significant role in the development of Scotland's economy for many years.

3. Since the start of the current ESIF Programmes Scotland's Highlands and Islands, have benefited from over £120 million worth of support from the ERDF to fund projects: in natural and cultural heritage, low carbon, green infrastructure and the circular economy, sustainable employment and SME support and innovation across a range of areas; and with over £65 million available to from ESF to support employability pipelines and skills development and combat poverty and social exclusion

4. Moving forward, it is essential that Scotland receives at least the same level of funding through the UK Government's proposed UK Shared Prosperity Fund (UKSPF).

Current position of the UKSPF

5. Despite being less than 3 months away from the end of EU Structural and Investment Fund programmes in the UK, the UK Government has provided no substantive update on the development of the UKSPF, noting only that details will be made public at the Comprehensive Spending Review (CSR) in late Autumn.

6. Scottish officials therefore have begun policy development under the assumption that Scotland's share of the UKSPF will be fully available to the Scottish Government and partners to utilise at our own discretion.

Development of Scotland's position

7. Over the winter of 2019/20 the Scottish Government commissioned a consultation into the replacement of the ESIF post EU exit. This enabled some 171 unique organisations to put forward their views.¹ Key themes included:

- that Scotland has control over any replacement fund;
- the benefits of a place-based strategy and governance model;
- that policy development is aligned to Scottish Priorities;
- that the new funding is additional;

¹ Responses were received from all Highlands & Islands Local Authorities as well as a range of bodies including Highlands and Islands Enterprise, CoHI, the Highlands and Islands Economic Partnership, Cairngorms National Park, Bòrd na Gàidhlig, Scottish Islands Federation, and the University of Highlands and Islands. The consultation was supported by 8 workshops held around the country including ones in Kirkwall, Stornoway and Inverness. Attendance at these specific workshops accounted for 30% of all attendance.

**CONVENTION OF THE HIGHLANDS AND ISLANDS
26 OCTOBER 2020**

(Paper 8)

- operating over a multi-year period (similarly to the current ESIF funds) planning and delivery is devolved to the lowest possible level with simplified administration.

8. The findings of this consultative process have been developed in partnership with a Steering Group of representative stakeholders to shape Scotland's position to help inform the development of the replacement for European structural funding.

9. This Steering Group, chaired by Professor David Bell (University of Stirling), is comprised of members selected on their own merit but with consideration given to both the sector and geography in which they work including: Highlands and Islands Enterprise, the Conventions of Scottish Local Authorities (Cllr Dr Steven Heddle, Orkney Islands Council), the Scottish Local Authorities Economic Development Group, South of Scotland Enterprise, and internal Scottish Government officials with varied policy interests such as rural economies, communities and skills.

10. A selection of four thematic groups were assembled to undertake in-depth work into 4 key areas and develop recommendations related to each for wider consideration including:

- **Policy Alignment:** Looked at the fit between the UKSPF and other funding streams, other EU Programmes including cross-border support as well as considering post COVID recovery plans. The group also considered how the UKSPF might address lateral themes such as climate change and wellbeing.
- **Governance and Delivery:** Considered which mechanisms might be used to distribute funding and to recommend a preferred model. It addressed issues of subsidiarity, additionality and governance.
- **Funding and Allocation Models:** Considered options for how funding should be apportioned across the country. Recommendation have focused on the definition of geographies, the definition of place and methodologies to for determining funding splits.
- **Monitoring and Evaluation:** Developed key success criteria and a logic model for determining the impact of the funds.

Potential Impacts of the UK Internal Market Bill

11. The recent publication of the UK Internal Market Bill has potential impact on the delivery of the UKSPF and the role of the Scottish Government as a whole.

12. Section 6 of the Bill relating to financial assistance will both undermine and complicate the delivery of the proposed UKSPF in Scotland. It notes that: "A Minister of the Crown may provide financial assistance to any person for or in connection with promoting economic development in any area of the UK". Noting that this promotion could include "taking any measure likely to contribute directly or indirectly to economic development (which might include for example measures relating to social inclusion)". Whilst the Bill does not explicitly state that the UKSPF will be distributed on a UK level the outlined provisions potentially provide the UK Government with the scope to do this.

CONVENTION OF THE HIGHLANDS AND ISLANDS
26 OCTOBER 2020

(Paper 8)

13. In addition to being a contravention to the devolution settlement this provision may disrupt the productive relationships the Scottish Government has forged with stakeholders over the course of many years, creating potential for confusion, duplication and unnecessary additional bureaucracy. As such, Scottish Government officials are currently engaging with their counterparts on how the UK Internal Market Bill could impact the development of the UKSPF.

Next Steps

14. The recommendations of both the ESIF Replacement Steering Group and Thematic Groups are currently being considered by Scottish Ministers and will be published in full in the upcoming weeks. The Scottish Government will continue to stress to the UK Government of the need for full engagement in the development of the UKSPF to ensure Scotland's share of funding is targeted to meet the varied needs of Scotland's people, communities and businesses; conveyed by these findings.