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Report on Funding of European Union Structural Fund priorities in Scotland, post-Brexit



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Finance and Constitution Committee

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- (a) any report or other document laid before the Parliament by members of the Scottish Government containing proposals for, or budgets of, public revenue or expenditure or proposals for the making of a Scottish rate resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;
- (b) any report made by a committee setting out proposals concerning public revenue or expenditure;
- (c) Budget Bills; and
- (d) any other matter relating to or affecting the revenue or expenditure of the Scottish Administration or other monies payable into or expenditure payable out of the Scottish Consolidated Fund.
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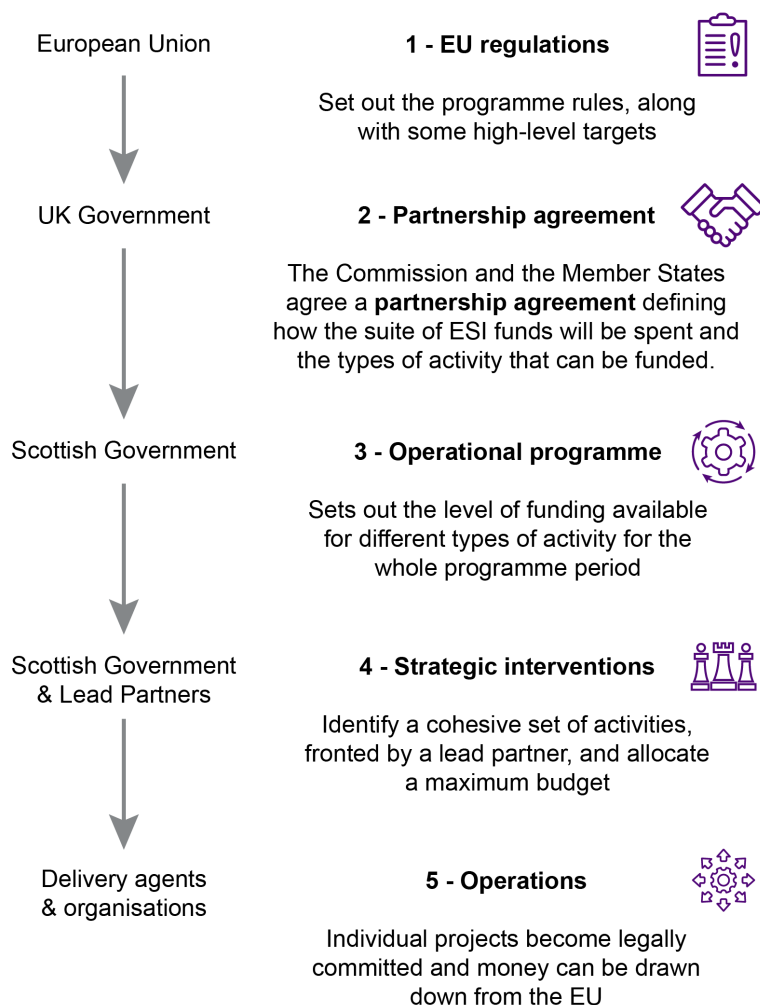
Committee membership

1. The Committee is made up of eleven Members; however, there have been changes to the membership during this inquiry. Previous Members of the Committee:
 - Willie Coffey MSP , 29 September 2016 to 3 September 2019;
 - Emma Harper MSP, 7 November 2017 to 3 September 2019;
 - James Kelly MSP, 29 September 2016 to 5 September 2019.

Introduction

2. European Structural Funds (EUSF) were originally created within the European Economic Community to help support the common market and with the aim of reducing economic inequalities between regions. The purpose and range of funds available has since evolved with the current programme (operating between 2014-2020) focussed on smart, inclusive and sustainable growth (reflecting the Europe 2020 strategy).¹
3. The current structural funds programme is worth about €10.7 billion to the United Kingdom and up to €872 million to Scotland across the seven year European Union (EU) budget period to the end of 2020.
4. The European Commission, UK Government, Scottish Government, local authorities, business, the third sector and others all have roles in managing structural funding and delivering projects. Figure 1 outlines the process of structural fund decisions from EU to individual projects. After 2020 the UK Government's policy is to create a domestic replacement fund - the UK Shared Prosperity Fund (UKSPF).

Figure 1 - Process of structural fund decisions



Source: SPICe

- It was within this context that the Finance and Constitution Committee ("the Committee") agreed to undertake an inquiry into how EU Structural Fund priorities might be funded in Scotland, post-Brexit. This report sets out the Committee's views on the proposed UKSPF and, given much of the detail of the UKSPF has yet to be decided, also sets out the Committee's views more widely on the preferable options for any post-Brexit replacement funding in Scotland.
- Whilst not formally part of structural funds, the Committee's inquiry included evidence and views on LEADER funding given its purpose is similar to that of EUSF. The purpose of LEADER funding is to "increase support for local rural communities and business networks to build knowledge and skills, and encourage innovation and cooperation in order to tackle local development objectives." ²
- The Committee is also mindful of the 2018 Economy, Energy and Fair Work (EEFW) Committee [inquiry into European Structural and Investment Funds](#) which resulted in letters to the UK and Scottish Governments setting out views and recommendations on the UKSPF and post-Brexit funding.
- To inform its work the Committee sought written and oral evidence (see Annexe A for the full list) and also met with those who manage or receive funding from EUSF

or LEADER in Paisley, Inverness and Dunfermline. We thank all those who have contributed their knowledge and views to the Committee's inquiry.

The current EUSF approach

9. In order to understand how the UKSPF might replace EU Structural Funds post-Brexit the Committee considered the purpose and types of EU Structural Funds.
10. As noted in the introduction to this report structural funding arose because of EU-wide efforts to reduce economic inequalities between regions - known as the EU's cohesion policy. In 1988, regulations integrating Structural Funds first proposed 5 key principles to underpin the funds (with subsidiarity added in 1993):
 - focussing on the poorest and least-developed regions
 - multi-annual programming
 - strategic orientation of investments
 - additionality
 - partnership, including at a sub-Member State level.
11. The 2014-2020 programme has as its focus smart, inclusive and sustainable growth (reflecting the Europe 2020 strategy). This strategy includes [11 thematic objectives](#) for supporting growth including enhancing communication technologies; enhancing small and medium sized enterprise competitiveness; promoting sustainable transport and improving network infrastructures; and investing in education, training and lifelong learning.
12. There are a range of funds to deliver this including a family of funds (referred to as European Structural and Investment funds - ESIF) which are preallocated to member states and governed by an overarching set of rules. These funds include:
 1. The European Maritime and Fisheries Fund
 2. The European Agricultural Fund for Rural Development
 3. The Cohesion Fund which aims to reduce economic and social disparities and to promote sustainable development in the poorer regions of Europe (meaning the UK is not eligible)
 4. The European Regional Development Fund (ERDF) which aims to strengthen economic and social cohesion in the EU by correcting imbalances between its regions. All EU regions are eligible
 5. The European Social Fund (ESF) which invests in people, with a focus on improving employment and education opportunities across the EU and people at risk of poverty. All EU regions are eligible.

Together, the ERDF and ESF are known as the structural funds (EUSF) and are the focus of this report. ¹

The UK Shared Prosperity Fund

13. The UKSPF is proposed by the UK Government to "fill the space left by EU Structural Funds post-Brexit". The UKSPF first appeared in the Conservative Party Manifesto for the 2017 General Election and in the [UK Industrial Strategy](#). The aim of the UK's Industrial Strategy is to boost productivity by backing businesses to create good jobs and increase the earning power of people throughout the UK with investment in skills and industries. This strategy was published in November 2017 following consultation on the Green Paper *Building our Industrial Strategy*.³

14. The UK Government provided further details about the UKSPF in July 2018 confirming that—

” *The objective of the UKSPF:* The UKSPF will tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind. The UKSPF will achieve this objective by strengthening the foundations of productivity as set out in our modern industrial strategy to support people to benefit from economic prosperity.

A simplified, integrated fund: EU structural funds have been difficult to access, and EU regulations have stopped places co-ordinating investments across the foundations of productivity. Simplified administration for the fund will ensure that investments are targeted effectively to align with the challenges faced by places across the country and supported by strong evidence about what works at the local level.

UKSPF in the devolved nations: The UKSPF will operate across the UK. The Government will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage the devolved administrations to ensure the fund works for places across the UK.¹

15. A public consultation was expected to take place before the end of 2018, but has yet to happen although the UK Government held seminars with some stakeholders during 2018. Responding to questions on when this public consultation would take place, the Parliamentary Under Secretary of State at the Department for Business, Energy and Industrial Strategy wrote on 13 June 2019 that the UK Government would "continue to review our approach to consulting on the Fund" as part of scenario preparations for Brexit.⁴
16. On 27 June 2019 the former Parliamentary Under-Secretary of State for Exiting the European Union, Kwasi Kwarteng, indicated that in relation to the UKSPF, details "will be introduced next year."⁵
17. In July 2019, following a change in the UK Prime Minister, a new Cabinet was announced. On 5 September 2019 the UK Minister for the Northern Powerhouse and Local Growth explained the UK Government's approach—

” This week, I was involved in discussions approving new spending in the current period of European funding, and the guarantee enables commitments to be made until 2021, and it will apply to commitments that are paid out between now and 2023, so there is certainty for projects. Projects are still being approved. With the guarantee, there will be no gap, and clarity about the quantum and the form of the UK shared prosperity fund will become clear at the comprehensive spending review, notwithstanding the fact that we are already involved in deep consultation with both the recipients of the funding.....and the mayors and devolved Administrations. Official level consultation is ongoing between the devolved Administrations and the UK Government. The most recent meeting took place on 2 August, and additional consultations will happen later this month. ⁶

18. The Minister for Trade, Investment and Innovation (hereafter referred to as "the Minister") confirmed to us at our meeting on 25 June 2019 that the Scottish Government has continued to reiterate to the UK Government its 5 key principles in relation to the operation of the UKSPF—
 1. that Scotland should not lose out financially compared with the current level of funding that it receives from the EU;
 2. that the devolution settlement must be respected and the UK Government must make no attempt to take back powers that the Scottish Government has rightfully executed to date;
 3. thirdly, that the Scottish Government must be an equal partner in development of the shared prosperity fund;
 4. that the current level of flexibility in allocation of funds should not be reduced; and
 5. that the replacement scheme should be operational in time to be implemented in early 2021, so that our stakeholders do not suffer difficulties as a result of funding gaps. ⁷
19. Given the UKSPF has yet to be consulted upon, the Minister confirmed that the Scottish Government proposes to hold its own consultation on future funding by establishing a steering group comprising of a range of stakeholders to:
 - ask key questions on future funding for Scotland
 - identify possible priorities, administrative practices, methods of allocation and funding periods; and
 - collate existing research and evidence to inform the structure of the future programme. ⁸
20. On 6 September 2019 the Minister wrote to the Committee confirming the establishment of a steering group with the "remit to oversee the consultation that will address the replacement for European Structural Funds." He also confirmed—
 - the membership of the Steering Group, chaired by Professor David Bell;

- a provisional first meeting date of 16 September;
- a potential launch date for the consultation in October 2019 with a closing date in January 2020; and
- the submission of the final report will be to Ministers in Spring 2020.⁹

21. At the Committee meeting on 26 June 2019, the Minister explained that the outcome of this work would likely be a statement to the Parliament but that he would be happy to come back to Committee to discuss it further.

22. As we heard EU structural funds are a valued source of support for a wide range of communities in Scotland especially those in rural areas. We welcome the intention to replace those funds should the UK leave the EU but are concerned at the delay in the consultation on the UKSPF (originally proposed to take place before the end of 2018) and the detail of the UKSPF (now proposed for 2020). As we set out later in this report, this continued delay is causing concern and uncertainty for those currently in receipt of EUSF. It also impacts on transition planning by current EUSF recipients as well as pre-application planning by potential new recipients.

23. We request confirmation from the UK Government of whether (and if so when) this consultation will take place and when, in 2020, the details of the operation of the UKSPF will be finalised. We also request confirmation from the UK Government on when it will publish details about the final quantum and form of the UKSPF.

24. The Scottish Government has set out its five principles on the operation of the UKSPF which are supported by the evidence we received. These operational principles seek to ensure that in Scotland there is as seamless a transfer as possible from the current EU Structural Funds programme to the successor UKSPF post-Brexit.

25. The Scottish Government has not yet set out its views on what it would wish to see replace EU Structural Funds although we note the Scottish Government has established a Steering Group to consult more widely. We seek clarification of what, if any, agreement the Scottish Government has reached with the UK Government to ensure that the Steering Group's final report and Scottish Government's subsequent views will inform the development of the UKSPF.

26. We welcome the Scottish Government's commitment to include the findings of this report in the Steering Group deliberations. We recommend that the final report of the Steering Group is published as is the Scottish Government's response to it - this will support transparency and facilitate greater understanding and scrutiny of the Scottish Government's approach to the UKSPF. We will take evidence from the Steering Group and the Scottish Government in Spring 2020.

Purpose

27. As noted above the overall purpose of the UKSPF is to tackle inequalities. This is to be achieved through strengthening the foundations of productivity as set out in the UK Industrial Strategy.
28. The UK Government proposes five foundations within its industrial strategy (Ideas, People, Infrastructure, Business Environment, and Places) along with setting "Grand Challenges" for putting the UK at the forefront of industry in the future. It recognises that important aspects "are associated with policies that are devolved, and we are committed to working in partnership across all four nations to reach the best possible outcome for every part of the UK."
29. The UK Industrial Strategy also acknowledges that each devolved administration has its own industrial strategy—

” These publications reflect ambitious thinking for each economy and identify priorities that align fundamentally with the five foundations of this Industrial Strategy, whether in Scotland’s focus on innovation and entrepreneurship or Northern Ireland’s emphasis on inclusive growth. In our Green Paper we committed to working with the devolved administrations as part of ministerial forums. This joint working has proven valuable, and as we implement our long-term strategy we will recommit to that partnership, seeking to tackle our shared opportunities with a focus on: addressing our shared Grand Challenges; making Sector Deals work for businesses across the UK; ensuring that our institutions collaborate for maximum impact; and working together on priorities for places.”³
30. Comhairle Nan Eilean Siar and Shetland Islands Council expressed concern that alignment with the UK Industrial Strategy could be detrimental to more remote areas of Scotland. This is because the Strategy “makes virtually no reference to rurality or islands and seems to have an urban focus.” Others were more supportive with Scottish Cities “committed to working with the UK Government to deliver the five foundations of productivity in a way that recognises and supports the Scottish Government’s inclusive economic growth agenda.”¹⁰
31. Some respondents such as Dundee Council and the East of Scotland European Consortium (ESEC) spoke of the need to maintain alignment with the EU priorities for 2020-27 (which will be expanded to include public health interventions and innovations) to potentially enable the UK to access EU programmes such as Erasmus, INTEREG and Horizon Europe.
32. The scope of the UKSPF was also highlighted as an area requiring greater clarity. Shetland Islands Council questioned whether “future rural development/agriculture and fisheries funding will be included within the scope of the UKSPF” whilst COSLA suggested that it appeared unlikely that rural or coastal funding would form part of the UKSPF given its links with the UK Industrial Strategy.
33. There was a consensus in the written evidence that the UKSPF should focus on delivering outcomes with flexibility to tailor programmes to reflect local circumstances and priorities. Shetland Islands Council highlighted the “opportunity to redesign and strengthen regional economic policy.” Some also considered there

were opportunities for the UKSPF to align funding with complementary priorities at a national, regional and local level. Others saw it as an opportunity to provide funding in areas which had not been a priority for the current EUSF (such as a renewed focus on capital spend and physical regeneration and infrastructure as called for by ESEC, Angus Community Planning Partnership (Angus CPP) and several councils).

34. The Equality and Human Rights Commission (EHRC) suggested that the new fund would “provide an opportunity to incorporate other important objectives” and noted the lack of public commitment to date to replacing the Rights, Equality and Citizenship Fund as part of the UKSPF.¹¹
35. There was also a broad degree of consensus across the written evidence that the general principles of the existing EU structural fund priorities, which focus on economic convergence and socio-economic inclusion, continue to be appropriate and should remain in place.
36. In evidence to the EEFW Committee the Minister explained that as the UK Government has indicated, the UKSPF will be built on the UK Industrial Strategy so “we will be constrained by that” but that the EUSF principles of cohesion and social inclusion are hugely important.
37. The Minister then clarified that the Scottish Government did not disagree with some of the UK Industrial Strategy's Grand Challenges such as harnessing the power of innovation to tackle an ageing society, becoming a world leader in the way people, goods and services move (mobility) and low-carbon growth (maximising the advantages for UK industry from the global shift to clean growth) —

” because they make sense in the Scottish context. Therefore, we have to start from that basis and build on it, depending on the feedback that we get from stakeholders. ...Anything that we do must ensure that the least-developed regions in Scotland receive the investment that they need to bring them up to the standard that we want, and that people who are furthest from the labour market continue to be brought into it and upskilled. Those principles are central to what we want.

Source: Economy, Energy and Fair Work Committee 11 September 2018, Ivan McKee, contrib. 48¹²

38. The Minister explained to the Committee that in terms of the UKSPF going forward the question is how well the overarching focus of the UK Industrial Strategy aligns with the Scottish Government's focus on inclusive growth, its economic strategy, climate change and low carbon. In relation to the UKSPF however—

” an important issue is how much scope we will have to define it ourselves. Will it be constrained in the same way it was constrained under the Commission, or will a different mechanism be used?

Source: Finance and Constitution Committee 26 June 2019 [Draft], Ivan McKee, contrib. 22¹³

39. He also observed that even if the UK Government accepted the Scottish Government's 'red lines'—

” the UK Government could come along with its own rulebook, equivalent to the EU book, and we would have to figure out how it would work, taking what we think the fund should look like in the context of the rulebook that the UK wanted to implement. It could be messy at a number of levels, from very detailed up to more overarching considerations.

Source: Finance and Constitution Committee 26 June 2019 [Draft], Ivan McKee, contrib. 50¹⁴

40. Whilst the Scottish Government has set out its 5 key principles on how the fund should operate in Scotland, we request clarification from the Scottish Government of its views on whether the key purpose of the UKSPF should be "to tackle inequalities across communities by raising productivity, especially in those parts of the UK whose economies are furthest behind."
41. We note that the UK Industrial Strategy which underpins the UKSPF recognises aspects of Scottish Government priorities such as innovation, entrepreneurship and clean growth. We seek clarification from the UK Government as to the extent to which the approach set out in its strategy will be used to determine the priorities for UKSPF funding.
42. We also heard that, despite some shared priority areas, it is unclear whether the UK Industrial Strategy (and hence the UKSPF) adequately recognises rurality, coastal or island needs across Scotland. We request further information from the UK Government on how the strategy recognises these needs (including the evidence base it used to underpin its approach).
43. Without greater clarity about the operation of the UKSPF and how it will impact on Scottish policy choices, it is difficult for us to comment further on whether the UKSPF objective to 'tackle inequalities between communities by raising productivity' as set out in the UK Government's Industrial Strategy is the right objective for the Fund. As we heard many also called for the objectives of the current EUSF programme of supporting economic convergence and social-economic inclusion to be retained. We also recommend (throughout this report) that the EU underpinning principles of subsidiarity, additionality, multi-annual programming, partnership working and focusing on the poorest and least-developed regions should continue to apply to the UKSPF.
44. Given the terms of any UK departure from the EU are not yet known, it is unclear the extent to which the UKSPF may require to reflect future economic partnerships with the EU. We therefore seek clarification from the UK Government on this as well as any plans it has to provide a statutory underpinning for the UKSPF so that it can, in some form, endure across successive governments and changing economic circumstances.
45. More generally we note that post-Brexit common frameworks (legislative and non-legislative) are proposed in those policy areas where the UK and devolved Governments consider it would be beneficial to establish common policy and regulatory approaches in some areas currently governed by the EU. We seek further information from the UK Government and the Scottish Government as to whether the common framework approach was considered in relation to the establishment and operation of the UKSPF (and if so, why it was discounted).

Design

46. A number of those who provided written evidence supported a partnership approach to developing the UKSPF between the UK Government, the devolved administrations, local authorities and other relevant stakeholders. This view was echoed at our workshop in Inverness where the partnership approach was considered key to the success of the UKSPF.
47. The South of Scotland Alliance suggested that the UK Government should set a high-level framework “which outlines a transparent model for allocation to devolved administrations” in a similar manner to the role previously played by the EU.¹⁵ North Ayrshire Council, East Lothian Council and others also highlighted the importance of subsidiarity which they believed critical to the future success of the UKSPF.
48. The Convention of Scottish Local Authorities (COSLA) confirmed that it was “keen to work with the Scottish and UK Governments to develop jointly a new post-Brexit Multi-Annual Integrated Sustainable Local Development Programme.”¹⁶ RSPB Scotland suggested that future funding arrangements should be “jointly developed and agreed by all four nations” and requested detail on how new intergovernmental forums and mechanisms would be established to enable such dialogue to take place.¹⁷
49. Others such as RSPB Scotland and SCVO considered that there should be a role for the Scottish Parliament in relation to the UKSPF with SCVO explaining that as a principle “The Scottish Parliament must be the authority to which all replacement funds for Scottish post-Brexit structural funds is accountable.”¹⁸
50. Others considered that the UKSPF provided opportunities to streamline the range and number of funding streams available. Scottish Natural Heritage (SNH) felt that “one weakness of the current approach is the degree of disconnect between structural funds and other EU funding programmes (such as CAP, Interreg, Horizon 2020, LIFE etc) and other national economic and social funding programmes.” It suggested that “it would be helpful to look across the piece at what each funding programme contributes or could contribute towards delivery of the agreed priorities, and whether a simplification, rationalisation, joining-up or refocussing of resources would strengthen delivery and provide efficiency gains.”¹⁹
51. Colleges Partnership highlighted the impact of this complexity on community groups which may never get funding if they don't happen to know about the full range of funding streams available.²⁰ SNH also highlighted the opportunity under the UKSPF to rethink the range of funds available—

” The complexity of what we have at the moment is not helpful. There are not only the European funds; there is also the growth deal money and the funds that are to be managed under the National Infrastructure Commission and the Scottish Futures Trust. All those funds have a related function, but, at the moment, the picture appears to be unnecessarily fragmented, which is unhelpful with regard to delivering the benefits.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Ross Johnston, contrib. 118²¹

52. Culture Counts advocated a “single pot approach” enabling capital and revenue streams to be coordinated and COSLA agreed that this would “avoid unnecessary gaps, inconsistencies and overlaps.” SOLACE also called for the integration of revenue and capital support, so it could be agreed through a single application process which would consider the full value of the project.²²

53. The Young People’s Consortium (YPC) highlighted that whatever the design of the UKPSF—

” we do not know what the impact of a post-Brexit world will be, and we have to ensure that the programmes are flexible and responsive to such changing conditions.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Kate Still, contrib. 124²³

54. Scottish Cities also stressed the importance of agility whilst the Federation of Small Businesses (FSB) highlighted the example of how long it took to repurpose EU Structural Funds following the recession—

” It was a long and painful process to turn around a product so that it would be available to businesses to support the rapid change in economic circumstances. Therefore, we need a framework that enables us to respond more quickly to what businesses need.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Susan Love, contrib. 125²⁴

55. The Minister explained one of the Scottish Government’s five key principles is that it must be an equal partner in the design of the UKSPF. It continues to seek clarification from the UK Government both at ministerial and official level but highlighted that “it is important that we do that work on our own in Scotland so that we understand the balance that we want to strike between flexibility and strategic intent and so on.” As previously noted whilst the detail of the UKSPF is awaited, the Scottish Government has established a steering group to look at options for future funding.²⁵

56. The UK Government has committed to consult the devolved administrations with the then Secretary of State for Scotland explaining that the UKSPF should “provide an opportunity for both governments to collaborate on transformational projects across Scotland, from the Borders to the Highlands and Islands.”²⁶ On 5 September 2019 the UK Government confirmed that the UKSPF will respect the devolution settlement “We are clear about that, and we want to work with the devolved Administrations and metro mayors as partners. We do not want to set the UKSPF up against the devolution settlement...”⁶

57. As noted above Ministerial Forums are identified by the UK Government as a valuable approach to longer term delivery of the UK Industrial Strategy. Those Ministerial Forums form part of the structures of intergovernmental relations (IGR) between the UK and devolved governments and IGR is currently under review by the Joint Ministerial Committee (Plenary). That review has been under way for 15 months and seeks to address a range of aspects of IGR. On 3 July 2019 the JMC(P) agreed 5 principles to ensure effective joint working, including: building trust, maintaining positive relations and a clear and agreed process for resolving disputes. The timescale for completing this review is not yet known.²⁷

58. Responding to the publication of the agreed IGR principles the Scottish and Welsh Governments urged greater progress to be made with the review, stressing the importance of joint working between governments in a range of policy areas. They highlight that the delay in completing the review now poses a serious risk to UK governance.²⁸
59. We note that the UK Government has committed to work with the devolved administrations. The value and importance of partnership working between Governments and other relevant stakeholders was a strong theme arising across the evidence we received. It was seen as key to ensuring that the diverse needs of different governments and communities are adequately recognised by the UKSPF. We recommend that a partnership approach is taken by the UK and Devolved Administrations in developing the UKPSF.
60. A partnership approach will reduce the risk of disputes arising from the operation of the UKSPF including from differing interpretations of its application in practice. It will give meaningful effect to the UK Government's commitment that the UKSPF will "respect the devolution settlement". As a collective approach it would improve the ability of the UKSPF to respond quickly to changing circumstances since any agreement between governments can be implemented quickly on the basis of shared understanding.
61. We agree with witnesses that the design of the UKSPF should reflect the principles of subsidiarity. Current EUSF flexibility should be retained so that some decisions regarding the allocation of funds can be taken at local government, regional and community level to enable local needs to be reflected.
62. We note that the UK Industrial Strategy identifies Ministerial Forums as a valuable approach to take forward the devolved and reserved aspects of the strategy on a UK basis. We are unclear whether such Ministerial Forums will also provide the basis to take forward the UKSPF on a shared basis. We seek clarification from the UK Government on this as well as how any disputes over the purpose and uses of UKSPF will be resolved particularly given there is currently no timescale for completing the review of Intergovernmental Relations.
63. The UK Government has previously proposed to consult on the UKSPF (although no date has been set) whilst more recently the Minister has established a steering group to consult on what the UKSPF might look like from a Scottish perspective. Given the partnership approach we advocate above, we recommend that the Scottish Government and its Steering Group consider inviting views from the UK Government and the other devolved administrations as well as from other stakeholders, given the UKSPF will operate across the UK.
64. There is also a role for Parliamentary oversight of the UKSPF as it develops. Looking ahead, alongside scrutiny of the Scottish Government's response to the Steering Group report (as set out later in this report) we will seek to discuss with the relevant UK Government Minister key developments with the UKSPF.

Funding quantum

65. The ESIF is a significant funding stream for the UK and for the current funding period (2014-20) the UK has been allocated €17.2 billion. Whilst it is not yet known how much funding will be available under the UKSPF, the UK Government has confirmed that it "would use the structural fund money that comes back to the UK following Brexit" to create a UKSPF.
66. The majority of respondents took the view that Scotland's share of post-Brexit funding should be no lower than it currently is (in real terms) and that the figures should be made clear from an early stage to provide certainty, clarity and allow for the smooth replacement of existing EU funding streams. The EEFW Committee recommended that the current allocation to Scotland under ESIF should be the baseline for future monies and that there should be no regression in funding.
67. Some such as Highlands and Islands Enterprise (HIE) suggested that the pragmatic solution is to "roll over" existing Structural Fund shares to the four nations as was also recommended by the Westminster All Party Parliamentary Group on post-Brexit Regional Funding.²⁹
68. The Scottish Council for Voluntary Organisations (SCVO) highlighted the importance of European Structural Funds as an important and stable source of funding but questioned whether there would be funding coming back to the UK as a result of Brexit —

” The Institute for Fiscal Studies and others have all said that there will be no money coming back from Brexit, as there will be a net cost. What that really means is that any allocation will be top-sliced from existing UK resources, including the Scottish block grant, and any money that comes through and is pooled at the UK level will be at the expense of other resources.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Ruchir Shah (Scottish Council for Voluntary Organisations), contrib. 120³⁰

69. Museums Galleries Scotland considered that the UKSPF should at least match the total amount of funds that flow to the UK from structural funds but expressed concern regarding "the UK Government's projections for a net loss in UK revenue streams from all models of Brexit settlements." In its view, this would lead to "an inevitably increased pressure on all areas of public expenditure" from which the UKSPF was unlikely to be exempt. It therefore spoke of a "considerable risk that funding to the cultural heritage sector...would be further constrained."³¹
70. Others suggested that the amount Scotland receives should increase because in future (were it not for Brexit) the value of EUSF programmes would have further increased (for example to include funding for Health). Based on this approach Colleges Partnership calculated that a future Scottish share, based on population, would be much greater than had it been assigned between 2014 and 2020 (by a further £37 million).³²
71. North Ayrshire Council also suggested that greater sums could be provided through the UKSPF as "resources allocated to the successor programme need to compensate for the loss of EU funding and provide additional resources to match

the scale of national and regional objectives for achieving regional growth".³³

Aberdeenshire Council also noted that Scotland could expect to receive a greater share of UKSPF funds if they include activity presently funded through LEADER and the European Maritime and Fisheries Fund (EMFF) or wider rural activity given the relative importance and size of these sectors to Scotland.³⁴

72. In its report on *Preparations for replacing EU funding for Wales*, the Finance Committee from the National Assembly of Wales recommended that—

” the Welsh Government negotiates with the UK Government to initially secure at least the same amount of funding to Wales through the UK Shared Prosperity Fund as it currently receives through Structural Funds, plus inflation. This should be added into the Welsh Government’s Block Grant, and remain in place.³⁵

73. A number of submissions also made the point that the source of the funding for the UKSPF needs to be “additional” and echoed concerns that resources should not be identified by top-slicing existing non-EU funding streams. Comhairle Nan Eilean Siar stated that it was “essential that the UKSPF is a stand-alone fund...and not conflated with other funding in place or opportunities being negotiated” such as any future Islands Growth Deal.³⁶

74. Colleges Partnership also expressed concern about how funding might be amalgamated stating that it is “important that Scottish Government is aware that various financial gymnastics are likely to be applied to seek to convince them that merging of different funds will result in a lesser amount of overall funding being available” and suggested that it is important that “the UK Government is unequivocally reminded of their existence, scope and scale and that Scotland will be entitled to a proportionate share of any replacement funds.”³²

75. Scottish Local Authorities Economic Development Group (SLAED) spoke of the importance of the overall quantum of resources at a UK level rather than the Scottish proportion, pointing towards “very significant regional economic disparities in the UK.”³⁷

76. Others argued that, whilst the total sum Scotland received is important, of greater importance is that the funding is then spent effectively. SCVO stated that “Better targeting and alignment of funding to the people and communities our sector supports is more important for our sector than the overall amount coming to Scotland. However, we would expect that any budget that is allocated to a UK wide fund must have a fair share allocated to Scotland. A population-based share would be 8.4%.”¹⁸

77. The Minister for Trade, Investment and innovation explained that—

” When it comes to the overall picture, our red lines are that Scotland should not receive any less money than it receives under the current programmes or than it would otherwise have received, for example, under any future EU programmes. We are very clear on that.

Source: Finance and Constitution Committee 26 June 2019 [Draft], Ivan McKee, contrib. 7³⁸

78. In relation to the size of the UKPSF (and hence Scotland's share), he commented that—

” the size and scale of the shared prosperity fund will be considered as part of the comprehensive spending review at UK Government level later this year. That is one of the reasons for the delay. It also talks to that fund being wrapped up in other spending issues that will be considered at UK Government level. The context is not as clear as we would like.

Source: Finance and Constitution Committee 26 June 2019 [Draft], Ivan McKee, contrib. 9³⁹

79. We agree with the evidence we received, and with the Scottish Government, that Scotland should receive no less than its current allocation under existing programmes. There should be no regression in funding given, as we note later in this report, regional disparities across the UK have not reduced. We request confirmation from the UK Government that it agrees with this position particularly in light of its own statement that current EUSF money coming back after Brexit will be used for the UKSPF.

80. Funding for the UKSPF should be 'additional' and we consider that it should not be obtained by reallocating funding from other non-EU sources such as the block grant. Equally, future funding, which would have formed part of EUSF but for Brexit, should not be subsumed to core public expenditure particularly in light of the concerns of widening regional inequalities.

81. We therefore recommend that once the total value of the UKSPF is known, the UK Government identifies which current EU funding streams have been subsumed into the UKSPF (and their individual value) as well as the expected outcomes that funding is expected to deliver. This should provide for greater transparency and more effective scrutiny and will minimise debate over the extent to which the level of funding post-Brexit replaces that previously received. We comment on how that quantum could be determined later in the report.

Multi-year funding

82. One aspect of funding for the UKSPF where there was universal agreement was in relation to the need for multi-year funding to provide greater certainty in planning and stability of services.

83. SLAED and the Industrial Communities Alliance Scotland stated that the extent of socio-economic disparities within Scotland cannot be addressed by a “quick fix” approach. The current EU Multi Annual Finance Framework approach of seven years was broadly supported including by Scottish Enterprise and Highlands and Islands European Partnership (HIEP). HIEP explained that “the current 7-year funding period for EU funds seems to work well” providing stability and enabling longer term strategic planning whilst SNH called for a sufficiently long timescale and preferably, a minimum of 5 years.

84. Scottish Cities proposed that the UKSPF match the 7 to 10 year approach within the existing EU Multi Annual Financial Framework but with added flexibility to deal with unforeseen local, national or global issues which may arise during the programme period.

85. COSLA stated that "one of the key assets of the Structural Funds has been the integrated structure and long-term planning. A proliferation of small projects not necessarily connected with the wider policy and delivery landscape, announced by the Government or Minister of the day, runs counter to the principle of added value or additionality."
86. SNH explained the value for applicants of longevity of funding—
- ” experience of the current schemes shows that providing security to applicants and maintaining the longevity of funding commitments are critical to delivering benefits, and a more annualised approach will have real risks with regard to the efficiency of the process and the confidence of applicants in applying for funding and being able to deliver benefits.
- Source: Finance and Constitution Committee 12 June 2019 [Draft], Ross Johnston, contrib. 122⁴⁰
87. Similar concerns were expressed by Angus LEADER Local Action Group in relation to rural businesses
- ” small and medium-sized enterprises are our biggest level. They need to know that the support that is out there for them is more than year-by-year.
- Source: Finance and Constitution Committee 19 June 2019 [Draft], Gill Lawrie (Angus LEADER Local Action Group), contrib. 117⁴¹
88. Multiannual funding helps support a more strategic approach to interventions with Comhairle nan Eilean Siar highlighting that—
- ” Other public sector funding has varied and there is not so much capacity to match fund projects, particularly in local government, so the security of multiyear funding has allowed a bit of strategic planning in an era when the Scottish Government and local government have been on one-year budgets.
- Source: Finance and Constitution Committee 19 June 2019 [Draft], Malcolm Burr, contrib. 119⁴²
89. A note of caution was sounded by Professor Bell as to whether multiannual funding was achievable given current budget cycles —
- ” I think that the approach taken in EU funding, in which a budget will be provided from, for example, 2014 to 2020, is so alien to the Treasury that it will struggle to cope with that sort of idea.
- At the moment, we have a two-yearly spending review. That is the way that public spending is allocated in the UK. If we want to go outside that framework, a special case will have to be made.
- Source: Finance and Constitution Committee 19 June 2019 [Draft], Professor Bell, contrib. 144⁴³
90. In evidence to the EEFW Committee the Minister identified the longer timescales of the EU Structural Fund programmes, beyond a single year or Parliamentary session, as being one of a number of characteristics which provide "a good starting point for future programmes". ⁴⁴

91. The evidence we received supports replicating within the UKSPF the current EUSF approach of committing funding for periods of seven years to provide stability and to support longer term strategic planning. We agree and recommend to the UK Government that funding for the UKSPF is committed for seven year periods to provide continuity with the existing EUSF approach. This will also ensure that the UKSPF operates over more than one parliamentary cycle providing greater certainty during its early operation. We seek clarification from the UK Government of the extent to which current Treasury rules can support this approach.
92. We also agree that funding provided by the UKSPF should be made available on a multi year basis and recommend that the UKSPF makes clear what funding is available to the Scottish Government for each year of the seven-year funding cycle.

Impact

93. The extent to which the EUSF had been successful in reducing economic inequalities between regions was also highlighted in evidence, particularly given the UK Government's commitment to replace this funding with the UKSPF. Between 2012 and 2014 the UK Government carried out a "Review of the balance of competences" of the EU, which was intended to be "an audit of what the EU does and how it affects the UK". This included a report on Cohesion Policy, which looked at the impact of the structural funds. This report suggested that the impact of the funding was hard to measure and that the evidence where it existed was mixed, particularly for richer countries such as the UK.⁴⁵
94. A House of Commons briefing on the UKSPF summarised the findings of the Review as—
 - ” funding such as that provided by the structural funds was certainly useful in countries and regions where this funding made up a significant proportion of GDP. In the UK (where this is not the case) it is much harder to see the impact, particularly due to a lack of reliable data and the difficulty of separating out the effects of other policies and general economic conditions.⁴⁵
95. These findings were echoed by Professor Bell who noted that the UK Government statement that structural fund money would be used for the UKSPF implies that spending on the UKSPF would be of a similar magnitude to existing EU Structural and Investment funding (that is €2.4 billion per annum across the 5 funds including EUSF). This, he notes, equates to only 0.3 per cent of UK total managed expenditure in 2018. He referred to spatial inequalities (that is inequalities across different areas or locations) suggesting that—
 - ” Whereas there is considerable political lipservice to the need to reduce spatial inequalities within the UK, the size of the proposed [UK]SPF suggests that, if this is the main spending programme aimed at reducing spatial productivity differences in the UK, it is extremely unlikely to achieve its objective.⁴⁶

96. He explained that spatial inequalities have been steadily increasing over the past 20 years such that unless the UKSPF is vastly more efficient in generating productivity increases than the EUSF funding, "the trend seems to indicate that it is likely that further increases in spatial inequality are more likely than reductions." ⁴⁶
97. SLAED, SOLACE and others also highlighted the lack of progress in reducing inequality with SOLACE arguing that "the scale of the challenges in Scotland have not diminished in recent years and there should at least be a similar level of resources made available in future years." ⁴⁷
98. Some evidenced the impact of EUSF to Scotland by other means, for example, in terms of providing infrastructure such as award winning tourism and heritage centres (as highlighted by Historic Environment Scotland) or in relation to providing jobs, training and supporting business as set out by the Minister to the EEFW Committee—

” Skills Development Scotland and the Scottish Further and Higher Education Funding Council use funds from the ESF towards meeting the aim of a well-equipped workforce, with some 17,000 individuals receiving skills training. That is in addition to other programmes that are working to contribute to alleviating poverty and increasing social inclusion by providing support to 15,000 individuals, including those in low-income households, lone parents and those not in work.

The ERDF programme supports investment in 16,000 small and medium-sized enterprises to grow and create jobs and opportunities, and it aims to support 500 organisations to develop low-carbon processes and technologies to facilitate Scotland's transition towards a low-carbon economy.

Source: Economy, Energy and Fair Work Committee 11 September 2018, The Minister for Trade, Investment and Innovation (Ivan McKee), contrib. 5⁴⁸

99. Whilst we comment later on how the UKSPF should be evaluated, it is concerning to hear that the impact of EU Structural Funds has been hard to evidence and that the level of funding currently proposed may not make a significant difference in tackling inequalities. There is, therefore, a risk that it may not be possible to evidence any impact of the UKSPF on tackling inequality. We therefore seek clarification from the UK Government as to what analysis it has carried out on the evidence base for, and likely impact of, the UKSPF on tackling inequalities.

Transitioning between funding approaches

100. The terms of any UK's exit from the European Union are not yet known. If the UK exits the EU with no withdrawal agreement new projects will not be able to access structural funds under the Multi Annual Finance Framework 2014-20. In October 2016 the then Chancellor of the Exchequer confirmed that the UK Government would guarantee that—

” all structural and investment fund projects, including agri-environment schemes, signed before the Autumn Statement will be fully funded, even when these projects continue beyond the UK's departure from the EU. ⁴⁹
101. In its 2017 Industrial Strategy the UK Government explained that "We have committed to guarantee funding for any project signed while we are in the EU, even if it continues after we have left, so long as the project provides good value for money and aligns with domestic priorities." ⁵⁰
102. In 2018 the UK Government extended its guarantee confirming that, in the event of no deal, it will continue to sign new ERDF and ESF projects after Brexit until programme closure at the end of 2020. Depending on individual grant agreements, projects may be able to continue to spend and claim money up till around 2023 under the so called n+3 rules whereby allocations are divided into annual amounts which must be spent within 2-3 years, depending upon the country. ¹
103. Only funds committed by the end of 2020 can be claimed under the Treasury guarantee. This means that projects must meet the programme rules and performance requirements and be match funded. ¹
104. A key concern we heard is whether there remains sufficient time for any replacement funding to be available from its start date and if not, how any 'gap' in funding would impact on those who currently oversee and deliver projects and those who are recipients of funding in Scotland. In relation to LEADER, Orkney LEADER LAG explained that—

” The current programme's application window will close early 2019. Projects can then spend until Sept 2020 to enable the Programme closure at the end of 2020. Even if a replacement programme opens to applications in January 2021, communities are already facing a gap of two years in being able to apply for funding for new projects.
105. Others such as Zero Waste Scotland highlighted their experiences of bringing into operation a new fund which had taken two years as systems were still being developed and the rules were still changing. Time was also required for staff to become familiar with its rules and administration. ⁵¹
106. A number of those we spoke to cited examples of the kinds of delays that might be expected during any transition to a UKSPF based on experience with the transition of EU Structural Funds from one 7 year funding programme to the next. In evidence

to us on funding of EU competencies in 2018, SLAED explained that although the current EU Structural Fund regulations were agreed in December 2013 and the Scottish programme was agreed one year later, there was a further delay until the first grant letters were issued. Fife Council echoed these concerns explaining that “the biggest barrier to access the funding and maximising spend was the delayed start of the current programme” with delays in European Commission approval and the setting up of IT systems meaning that “project approvals and claims were not in place until two years after the intended start dates.” In order to facilitate a smooth transition to the UKSPF and avoid unnecessary delays it stated, in April 2019, that “the UK Government should be consulting now with a view to having funding in place from January 2021.”⁵²

107. Aberdeen City Council explained that there was little confidence that any new funding would be in operation by 2021—

” The current programme, which was not a dramatic change from the previous programme, encountered delays. Given the scale of the change that there might be with a fresh new fund, I genuinely cannot see how it can happen prior to 2021. As has been said, that will create a big problem, because there will be a hiatus between funds and activity will cease, unless funding is made available to continue it.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Stuart Bews, contrib. 133⁵³

108. Comhaile nan Eilean Siar explained that councils and other partners cannot fill funding gaps in a way that may have been possible in previous years. Given this it will begin discussing staffing within the current financial year—

” The problem is the lack of clarity following the lack of consultation on future and post-Brexit funds. If we knew what the criteria were, we could plan and work towards them in harmony with the Scottish Government and others, and we could work to keep people and give continuity to employees and those who are retained by other organisations.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Malcolm Burr, contrib. 142⁵⁴

109. Others highlighted the human cost of the current uncertainty about the future funding arrangements with Angus LEADER LAG commenting that—

” The alarm bells are already ringing. We have staff who are looking to their future and where they will go after the LEADER programme finishes in December 2020. At the moment, there is nothing that we can offer our local projects, groups and communities that will fully replace the LEADER process, so the alarm bells are going off right now.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Gill Lawrie, contrib. 140⁵⁵

110. The Minister confirmed that one the Scottish Government's five key principles is “that the replacement scheme should be operational in time to be implemented in early 2021, so that our stakeholders do not suffer difficulties as a result of funding gaps.”

111. Highlighting the impact of uncertainty regarding the design of the UKSPF, he commented that—

” It is difficult to plan when the UK Government is providing no information, especially on simple questions such as what the value of the shared prosperity fund will be. We cannot wait for the UK Government any longer, which is why I have agreed with the Cabinet Secretary for Finance, Economy and Fair Work on a proposal to hold our own consultation exercise on future funding.

Source: Finance and Constitution Committee 26 June 2019 [Draft], The Minister for Trade, Investment and Innovation (Ivan McKee), contrib. 2⁷

112. On 5 September the Minister for the Northern Powerhouse and Local Growth explained that—

” This week, I was involved in discussions approving new spending in the current period of European funding, and the guarantee enables commitments to be made until 2021, and it will apply to commitments that are paid out between now and 2023, so there is certainty for projects. Projects are still being approved. With the guarantee, there will be no gap, and clarity about the quantum and the form of the UK shared prosperity fund will become clear at the comprehensive spending review...⁶

113. We welcome the UK Government commitment to "underwrite" the UK's allocation for structural and investment fund priorities to the end of 2020. This may see some projects able to spend and claim money until 2023.

114. We are, however, unclear what the caveat set out the UK Industrial Strategy "so long as the project provides good value for money and aligns with domestic priorities" means in practice. We therefore seek clarification from the UK Government on how projects which continue, after the UK leaves the EU, will be assessed as providing good value for money and by whom. We also request further information from the UK Government as to which 'domestic' priorities (UK, Scottish or local) will be used to assess alignment.

115. We request information from the Scottish Government as to how it is supporting Scottish projects to successfully secure funding under this guarantee.

116. We agree that any replacement scheme must be operational for early 2021 so that there is no gap in funding as we move from EUSF to the UKSPF. We are concerned therefore that, based on the evidence we heard, the uncertainty regarding future funding arrangements is now impacting on staff retention and ongoing funding for programmes - especially those delivered by small organisations. This could result in loss of knowledge, skills and experience, and capacity to deliver future programmes under the UKSPF. The recent UK Government confirmation that further details about the UKSPF will not be known until 2020 will add to these concerns.

117. We recommend that the UK Government, as a matter of urgency, makes clear its proposals for how it will support organisations to retain the necessary skills, knowledge and experienced staff until the UKSPF is operational.

118. We also seek clarification from the Scottish Government as to what support it will provide organisations across Scotland to help them retain the necessary skills, knowledge and capacity during any period of transition.

How funding is provided to Scotland

119. Currently Structural Funds are distributed to member states according to an EU-wide formula linked to the economic performance of regions within member states. At the beginning of the programme period (2014-2020) the UK Government and European Commission were required to agree a Partnership Agreement setting out how the suite of European Structural and Investment funds will be spent and the types of activity that can be funded.¹
120. For each of the EU's thematic objectives, the Partnership Agreement describes: the UK's economic context; challenges and opportunities; and, UK-wide objectives and investment priorities. Cross-cutting issues required by the EU (for example equalities and sustainable development) are also addressed.
121. The Partnership Agreement defines the Scottish Government as the Managing Authority for structural funds in Scotland. As a Managing Authority, the Scottish Government wrote the chapter in the Partnership Agreement on Scotland. In that chapter, the Scottish Government describes the "niche" where it sees the European Structural and Investment funds fit, and sets out the types of activities it intends to use the funds for.¹
122. Currently Scotland is divided into five regions which along with regions across the UK inform the level of funding the UK receives. Those five regions are categorised into one of three types based on GDP performance—
 - Less-developed regions, with GDP per capita of less than 75% of the EU27 average
 - Transition regions, with GDP per capita of between 75 and 90% of the EU27 average
 - More developed regions, with GDP per capita of more than 90% of the EU27 average.
123. The Highlands and Islands is classed as a transition region whilst the rest of Scotland is classed as more developed. Under the EU formula, funds are then allocated to Member States based upon the characteristics of each region (such as population, number of unemployed people in regions with an unemployed rate above the EU average and aspects of population density for more developed regions). Member states are also able to shift funds between regions under certain circumstances.
124. In Scotland Structural Funds are currently worth up to €872 million across the seven year EU budget period of 2014-2020. This includes an uplift of €228 million reallocated by the UK Government in view of the fact that Scotland (as with the other Devolved Administrations) would have received 27% less on average under the EU formula for the current programme compared with the previous programme whilst England would have seen a 7% increase under the current programme.¹
125. The initial sums allocated to each Member State were set out in a Commission Implementing Decision of 3 April 2014 but these amounts have changed over time.

Structural Funds must be match funded (co-financed), normally by the public sector, so the total figure spent on structural fund priorities is greater than the amount of money coming from the EU.¹

126. In relation to the UKSPF the UK Government has confirmed that it will respect the devolution settlement, also committing to consult with the Scottish Government and other devolved administrations before engaging more widely on the design of the Fund. Given it remains unclear what funding will come to Scotland and how that will be decided we heard a range of views on how funding should be provided to Scotland and the pros and cons of different methods of calculating that quantum.

How future funding for Scotland is determined

127. Key to the level of funding Scotland receives is the mechanism by which it is calculated. There was a wide range of views on the approach which would most fairly and accurately determine the level of funding Scotland should receive.
128. In evidence to the Committee's roundtable discussion on Funding of EU Competencies, Professor Michael Keating set out the options available for how funding might be allocated post-Brexit—
1. the present system could be rolled over (allocation on need using GDP per person)
 2. the moneys could be included in the block grant and subject to the Barnett Formula
 3. the moneys could be used for UK programmes or tied to UK policy frameworks
 4. do away with structural funding altogether.
129. Others suggested that of more importance than the formula for allocating funding was ensuring that the money reached the people who need it most, such as marginalised groups. As the Equality and Human Rights Commission explained—
- ” During our research, a Scottish stakeholder said that, if there is a hard Brexit, there will be an increase in the number of people in marginalised groups and an increase in the number of people who require such funding. When thinking about allocation, we should take into account that the current need might change, depending on the outcome of Brexit.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Nora Uhrig, contrib. 135⁵⁶

130. In addition to how much funding might come to Scotland the issue of what happens to unspent funding also matters. Currently funding which is not spent within the agreed timeframe is returned to the EU. For example in Scotland Structural Funds were worth €941 million at the start of the 2014 funding programme but this was reduced by €22 million in 2017 and by around €50 million at the end of 2018 due to the available budgets not being fully spent and claimed back from the EU. This left €872 million for the seven-year period to 2020.

Need

131. The majority of respondents supported a needs-based approach to allocating funding to Scotland from the UKSPF although several criticised the EU's approach of using GDP/GVA per head to measure inequality. Angus Council suggested that this measurement could provide "a distorted picture" whilst Fife Council stated that "it provides an indication of economic activity within an area [but] is not an indicator of wealth nor does it measure regional poverty."⁵²

132. Professor Bell explained that the current EU approach to distributing funding was relatively simple using aspects of GDP as an indicator of need depending upon—

- the selected geography
- the indicator(s) used
- the rule applied to the indicator

133. If the UKSPF allocates funding on the basis of need then decisions will have to be made for each of these aspects. For example more detailed geography might be selected post-Brexit as only the UK is being considered than is currently used by the EU. Professor Bell highlighted the trade off between targeting homogeneous areas of disadvantage (which would tend to be small geographic areas) whilst being able to transfer responsibility to authorities competent to manage the funds (which tends to suggest large areas).⁵⁷

134. Professor Bell considered that should the UKSPF allocate funding based on a needs-based assessment then the level of funding Scotland receives would be broadly its population share—

” Based on a list of indicators, such as gross domestic product per head or unemployment, Scotland tends not to be that far away from the UK average. That would mean that funding per head in Scotland...would be pretty close to the UK average.

One would have to manipulate quite dramatically the way in which need was assessed in order to find ways of giving Scotland a higher proportion than its population share. That would be the case as long as a measure such as GDP per head or unemployment—a standard economic statistic—was used as a basis for the needs assessment.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Professor David Bell (University of Stirling), contrib. 111⁵⁸

135. A House of Common Library Briefing paper also highlighted issues with using the GDP per person approach of the EU because GDP per person looks at the economic contribution of workers and then divides it by the number of residents. It can therefore provide a very distorted picture in areas where a large proportion of the workers in the region commute in from their homes in other regions. This is certainly the case in central London which may explain why the UK's regional economic development appears to be so unequal. A better alternative might be to use GDP per employee working in a particular region (a measure of productivity) or household income. The briefing notes that the most productive region in the UK has

productivity just over twice as high as the least productive, a much lower ratio than the 9:1 for GDP per person.⁴⁵


136. When combined with local factors such as high fuel poverty and low digital connectivity, Orkney Islands Council stated that “it is critical to ensure that a one-size fits all approach is not applied to defining need.” Comhairle nan Eilean Siar highlighted similar concerns noting that whilst GVA per head “can provide estimates of economic activity, the measure does not provide adequate insight into poverty or quality of life. Measures such as disposable income and the regional human poverty index give a more nuanced view of regional poverty.”³⁶
137. Shetland Islands Council pointed out that the lack of a territorial dimension to EU priorities had “resulted in many Strategic Interventions (SIs) having limited relevance within the Highlands and Islands due to criteria such as population threshold and minimum project size.”⁵⁹
138. Other measures of need were suggested in evidence to calculate funding to Scotland including—
 - disposable income
 - Regional Human Poverty index
 - working age population
 - peripherality and rurality
139. Professor Bell sounded a note of caution however—

” We are talking as if Scotland would be able to determine the formula whereby the different levels of need would be assessed in Scotland. That is not entirely clear; it is possible that the UK Government will take the view that the assessment is down to it, as the EU made decisions on transition regions and so on. That is a very important consideration.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Professor Bell, contrib. 122⁶⁰

Barnett

140. Another approach the UK Government could use is to allocate funding from the UKSPF using the Barnett formula. Using this formula would mean that funding would be provided direct to the Scottish Government. Nicolo Bird and David Phillips of the Institute of Fiscal Studies (IFS) identified some of the advantages and disadvantages of using this approach—
 - ” The Barnett Formula is simple and well understood. The Scottish Government also has significant flexibility over how it spends annual increments to its funding as a result of the application of the Barnett formula. But the formula has design flaws which mean its use the allocation of funding to replace current EU schemes should be avoided.”⁶¹

141. As was explained at the Committee meeting on 13 June, the Barnett formula would also not assist in determining the initial level of funding so some other assessment would be needed to establish the baseline figures. Professor Bell highlighted that should UKSPF money be allocated to the Block grant using the Barnett formula then "it would be in competition with health, social care, education funding and all other other forms of funding. We know there are currently pressures right across this system".⁶²
142. There was some support for using the Barnett formula to determine the funding from the UKSPF from the Young People's Consortium (an employability service run with Action for Children, Barnardo's and The Prince's Trust). The Young People's Consortium (YPC) felt that Barnett had brought benefits including "removing the element of competition between the UK nations" and that the "most successful outcome would be to implement front-loaded investment using Barnett formula with a needs-based solution."⁶³
143. Professor Michael Keating stated that using the Barnett Formula would mean—
 "the devolved nations would keep their historic relativities but any changes would be applied on a pound for pound basis per capita and each pound would represent a smaller proportion of their existing budgets. As the overwhelming probability is that these funds will be cut rather than increased, the devolved nations would face less severe reductions than under the present system. Contrary to some recent comment, Barnett does not mean that the nations would get only a population-based share of expenditure. Indeed, Barnett would be rather favourable to them."⁶⁴
144. Several submissions took the view that using the Barnett formula would not be helpful with Angus Council, for example, stating that Scotland's allocation "should not be tied to the Barnett formula which is detrimental to rural areas and Scotland as a whole."
145. HIEP spoke of the "danger that a Barnett formula allocation would detract from" a needs-based approach whilst ESEC, Dundee Council, North Ayrshire Council, HIE, SCVO and University of the Highlands and Islands (UHI) raised similar concerns.

Match Funding, pre-allocation and competitive funding

146. All EU structural funds adhere to the principle of 'additionality', which is the concept that EU funding should not replace existing national funding but should rather supplement it. This means that the recipient country is able to do things that it could not do if it were relying only on its own resources. The practical effect of this is that structural funds do not cover the entire cost of any given project – the proportion that they do cover is related to the needs of the region, with the remainder being made up through 'match funding' from other UK public sector organisations.⁴⁵
147. This means that the Scottish Government cannot commit to more than 50% of EU funding to any intervention with the rest requiring to be sourced from other public funding sources. That said, as a transitional area, there is flexibility for match funding up to 70%- 80% in the Highlands and Islands depending upon the specific

programme or activity. At our workshop in Paisley there was a lot of concern about match funding where it was considered to act as a significant brake on otherwise valuable projects as it meant, without securing adequate match funding, projects could not be applied for.

148. Should UKSPF funding be provided to Scotland on a match funded basis then some suggested that this 50% maximum threshold should be a minimum in order to help community groups access funding. Comhairle nan Eilean Sar explained that—

” I come from a council whose match fund is virtually entirely committed halfway through the council’s term. As public sector funding falls and as the Scottish Government and, hence, local government face capital pressures, the capacity to match fund as we used to do is seriously reduced. Some councils have reserve funds and access to other means, but others do not.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Malcolm Burr, contrib. 173⁶⁵

149. SLAED and the West of Scotland European Forum (WSEF) highlighted “serious concerns if the Fund was designed on a UK wide challenge fund basis as this could distort the intention of the UKSPF – promoting inclusive growth – by allocating on the basis of the availability of match funding rather than on need.” Similarly, Highland Council stated that “any allocations based on the availability of match fund rather than need fundamentally undermines the regional disparity rationale for such funds in the first place, and is clearly not acceptable.” Highlands and Islands European Partnership stated that “any funding allocations dictated by availability of match funding would not be supported by HIEP as this would not tackle inequalities between communities and target where it is needed most.”⁶⁶

150. It is possible that the UKSPF could allocate funding on the basis of a competitive funding approach as is currently the approach with Horizon 2020 EU funding. Competitive funding means that potential beneficiaries would bid directly to the UKSPF to receive funding, and are in competition with other possible beneficiaries. This approach was used by the EU until the start of the 2007-2013 programme with almost all Structural Funds in Scotland distributed under the challenge fund approach. This model has also been used in the UK for funding such as City Deals, where an individual region comes to an agreement with the Government to receive funding for a particular development plan. Scottish Natural Heritage suggested that choosing the right approach to fit the aims is important and that competitive funding therefore has a place—

” There are choices in administration relating to challenge funds and co-production. A challenge fund approach might be more appropriate for generating innovation and new ideas if we are looking to be more innovative and there is no established expertise. However, if we are seeking to fund and support well-established aims and organisations with capacity and a track record, a co-production approach would be much more appropriate.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Ross Johnston, contrib. 143⁶⁷

151. The competitive model is not, however, without its draw backs. As Stirling Council pointed out, whilst a competitive model might be more flexible, it would be “based on the perceived merit of an individual project rather than on general needs of areas.” This could lead to less developed areas losing out on funding.⁶⁸

152. Those attending our Paisley workshop did not support a UK-wide competitive bidding model as it was felt that this would favour well resourced organisations who could hire consultants to draft bids rather than decisions being made on the merits of the projects themselves. It was also suggested that the UK Government's priorities may differ from those of stakeholders.
153. Fife Council suggested that "there should be a distinct allocation for each of the Devolved Administrations to manage. This allocation should be identified and ring-fenced for activities identified as priorities for the replacement funding for EU funding and not just included in the budget settlement." ⁵²
154. Responding to the EEFW Committee on how funding might be allocated to Scotland from the UKSPF, the Minister highlighted the importance of maintaining, post-Brexit, the higher funding levels that Highlands and Islands received as a transition area (one of three in the UK) but that—

” we are very keen to push strongly the argument that funding for Scotland must be maintained at least at the level that it is at now, and that division of the funding among the four nations of the UK must take that into account.

Source: Economy, Energy and Fair Work Committee 11 September 2018, Ivan McKee, contrib. 50⁶⁹

155. Part of the discussion between the UK and Scottish Governments would include clarifying what the UKSPF is intended to cover. The Minister explained that he understood it would include the marine and fisheries fund which was important as Scotland currently receives 50% of that funding because of how the fund is currently divided up.
156. We have already recommended earlier in this report that the UKSPF should provide greater certainty by pre-allocating funding to Scotland for each year of the UKSPF funding period. We consider that unspent funds in Scotland should be made available for spending in Scotland in subsequent years. This will encourage a more strategic approach to funding especially given reducing inequalities will require longer term interventions where expenditure may not be evenly distributed across years. We recommend that the Steering Group considers this further including any criteria for the allocation of this spending.
157. As we note previously in this report the lack of information on the quantum of funding for the UKSPF and how it will operate is creating uncertainty and impacting on organisations across Scotland.
158. To address this uncertainty we consider the funding which Scotland receives under the UKSPF should be no less than that which it currently receives. This will provide for greater stability and certainty during the transition from the EUSF to the UKSPF in the event of Brexit especially given the details of the UKSPF will not be known until 2020 with the fund due to become operational in 2021. We seek confirmation from the UK Government that it will adopt this funding approach.
159. It is disappointing that since the UKSPF was proposed in July 2018 the Scottish Government has yet to confirm its views on how the quantum of funding for Scotland should be calculated. We therefore request those views.

160. The evidence we received supported a needs-based approach to calculating Scotland's future allocation of funding from the UKSPF. This approach was seen by many as more effectively targeting funding to those areas where it is needed most. However there was no clear agreement on what indicators would most effectively reflect Scotland's needs. We recommend that as part of the partnership approach to developing the UKSPF in the longer term, the UK and Devolved Governments agree the range of measures to be used to ensure a fair needs-based funding allocation across the four nations.
161. We also recommend that smaller geographical areas than the four areas in Scotland currently used should also be considered to provide for more effective targeting of funds. This should be easier to achieve under the UKSPF given it covers four nations as compared with 28 member states as is currently the case.
162. As we heard EU funds require to be match funded by no less than 50% from other public sources although greater flexibility exists for transitional areas such as the Highlands and Islands (where up to 70-80% may come from EUSF). This additional flexibility enables a potentially greater number of projects to be supported. During times of public sector constraint the requirement for 50% match funding means EU funds may not be spent as public funds to match the EUSF funds cannot be secured. Should the UKSPF use the match funding approach to allocating funding, we recommend that there is greater local flexibility as to the percentage of public funding required to secure funding from the UKSPF.

The role of the Scottish Government and Scottish Parliament

163. The current system of EU structural funds is pre-allocated – that is, amounts for each area are determined, and it is then up to the Managing Authorities (such as the Scottish Government) for each area to distribute this funding to beneficiaries.
164. The UK Government has stated that the UKSPF “will of course respect the devolution settlement” and the majority of respondents agreed that the Scottish Government should have responsibility for setting the strategic framework for funding in Scotland.
165. Colleges Partnership explained that the UK Government white paper on the [The United Kingdom's exit from, and new partnership with, the European Union](#) says that one of the reasons for repatriating funds is to increase subsidiarity and devolve funding to devolved nations. They expressed concern, however, that the impression given at the 2018 UK Government seminars was that “the new fund will bypass the devolved administrations...and be driven via City Regions” which in its view, contradicted the White Paper commitment to respect the devolution settlement.³²
166. Zero Waste Scotland expressed the view that whilst a regional approach had its advantages on a project basis, “to ensure best alignment of outcomes at a national level, the Scottish Government is best placed to allocate funding and determine the accountability processes in the future.”⁷⁰
167. Museums Galleries Scotland suggested that “centralising decision making across the whole of the UK would singularly fail to reflect the diversity of communities and inequality that exists across each of the devolved nations.”³¹
168. Universities Scotland, however, suggested that a mixed approach should not be discounted, stating that “a UK-wide competition sitting alongside regional approaches taken forward with budgets allocated by different criteria could be a proposed approach.”⁷¹
169. RSPB Scotland also suggested that there may be a role for the Scottish Parliament (in addition to the Scottish Government) in deciding how funding is allocated in respect of devolved competences. The SCVO agreed, stating that “it is clear that the Scottish Parliament must be the ultimate authority for any post-Brexit structural funds in Scotland, in order to be coherent with devolved policy.” SCVO explained that—

” At the moment, accountability can be a bit loose. There can be accountability to the European Commission and to the UK Government. That situation is not good for transparency, participation and openness in how the resource is delivered. If the Scottish Parliament has the key accountable body role, that will bring more trust into the way that funding is allocated.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Ruchir Shah, contrib. 127⁷²

170. In evidence to the Committee the Minister was clear that that the devolution settlement must be respected and the UK Government "must make no attempt to take back powers that the Scottish Government has rightfully executed to date". In terms of its role the Minister stated that—

” We foresee the Scottish Government continuing in its role as the managing authority. That is the most effective and sensible way to continue. It will allow us to co-ordinate with the strategic priorities of the Scottish Government and to identify priorities for the deployment of funds.

Source: Finance and Constitution Committee 26 June 2019 [Draft], Ivan McKee, contrib. 4⁷³

171. We note that the UK Government has confirmed that it will respect the devolution settlement and wants to work with the devolved Administrations. We consider that the decision taking powers that the Scottish Government currently exercises in relation to funding received under the EUSF should not be reduced under the UKSPF. The flexibility for the Scottish Government to distribute its post-Brexit UKSPF funding according to its priorities should be no less than that currently available under the EUSF.
172. Retaining this existing approach to allocation across the UK will provide for greater continuity and reduce uncertainty during any transition period from EUSF to the UKSPF.
173. As we recommend in our *Report on Common Frameworks*, we consider that those public bodies which operate in Scottish devolved policy areas should be accountable to the Scottish Parliament. As such, UK or Scottish public bodies which spend UKSPF monies in devolved areas should be accountable to the Scottish Parliament for that spend.

How funding is provided across Scotland

174. The Scottish Government holds various roles in relation to the structural funds—
 - Managing Authority - responsible for the efficient management and implementation of the operational programme
 - Certifying Authority - responsible for submitting certified statements of expenditure and applications for payment to the European Commission
 - Audit Authority - responsible for audit of the management and control systems
 - Lead Partner – responsible for supporting the delivery of programme activities.
175. In its role as Managing Authority, the Scottish Government agreed operational programmes for both the ERDF and ESF with the European Commission. These operational programmes set out in detail the level of funding available for different types of activity for the whole programme period.
176. For the 2014-2020 programme and as part of the operational programme for each structural fund, the Scottish Government has:
 1. identified the EU Cohesion policy's Thematic Objectives of relevance to Scotland
 2. selected a limited set of the EU's available investment priorities to concentrate on
 3. assigned the available budget to these objectives and investment priorities
177. This process must follow the rules of each fund as laid down by the EU, for example on co-financing rates or concentration on a limited number of priorities.
178. As the Managing Authority, the Scottish Government allocates funds to Lead Partners through Strategic Interventions (SIs). SIs are described by the Scottish Government as "groups of projects of scale, longevity and ambition that can achieve long term change, but also ensure long-term stability of funding in support of that identified required change. Selection of operations will therefore operate on two levels, with the strategic intervention selected first, and the individual operations within it able to be added over a longer timeframe to ensure that the whole group of projects performs and delivers the expected results." ¹
179. There are currently over 40 Lead Partners which are typically organisations with the capacity and capability to manage the funds and provide match funding of their own. Lead Partners' main task is to convert the ESF and ERDF funding allocated to them into appropriate projects - called operations - and then oversee delivery. Operations are the point when funding for individual projects becomes legally committed and money can be drawn down from the EU. Lead Partners will usually spend and claim a significant proportion of the structural funds directly, but may also procure services or distribute funding to others through a challenge fund.

180. Delivery Agents are often the same organisations as Lead Partners, but at this point funding has been legally committed to specific operations. Delivery Agents must be eligible organisations i.e. public bodies, third sector or not for profit organisations. However the final beneficiaries of operations will be, for example: businesses, third sector groups or individuals seeking to improve their skills. There are over 200 operations funded through the current structural funding programme, organised through 14 SIs.
181. For LEADER funding the model for distribution is different to that of structural funds. The Scottish Government allocates funding to 21 Local Action Groups. Grants are awarded by the Local Action Groups to projects that support delivery of a Local Development Strategy. Under the EU rules, this approach is known as community-led local development.

Decision taking

182. The majority of respondents agreed that the Scottish Government should have responsibility for setting the strategic framework for funding whilst delegating a large degree of decision-making to a regional or local level.
183. Comhairle Nan Eilean Siar described this as “triple devolution” from national government to local authorities to communities, a model which it felt worked well. COSLA stated that “recentralisation as a result of EU exit would not be welcome” and expressed keenness that levels of devolution under ESIF were retained under the UKSPF. It was “equally keen to ensure that further devolution within Scotland takes place.”³⁶
184. A number of those we heard from advocated devolving decision taking further such as:
- Regional decision taking: Shetland Islands Council highlighted support “for further regionalisation via a regional economic policy and potentially a regionally based UKSPF” in the Highlands and Islands. It highlighted the issue of “programme centralisation” in the 2014-20 programme which “led to strong feelings of disengagement...particularly from a local authority perspective.” It went on to state its expectation that the Scottish Government would work in partnership with regional and local stakeholders...in order that decision making is at the most appropriate level relative to the scale and objective of the funds.”⁵⁹ Orkney Islands Council also called for a return to the pre-2014 approach where the Highlands and Islands had their own plan, a view echoed by HIE, HIEP and UHI.
 - Local Authority Decision taking: Others, including Fife Council and Fife LEADER LAG, called for local authorities to be given their share of the UKSPF to allocate on the basis of their own priorities, to address local needs and opportunities given their “unparalleled and distinctive expertise in delivering local activity specific to local needs.”
 - Local Community decision taking: EHRC commented that stronger localisation would “allow smaller organisations to apply for funding to deliver highly localised, targeted interventions addressing local need.” Aberdeenshire Council called for a partnership approach to the delivery of community-led initiatives.

Angus Council echoed this view, highlighting the success of participatory budgeting and a “bottom-up grass roots model” for the delivery of local development strategies as seen with the LEADER and EMFF programmes and in keeping with the community empowerment agenda.

185. The Local Action Group (LAG) approach used to allocate LEADER funding across Scotland was highlighted in our workshops as being a particularly good example of local decision taking informed by local needs. As Angus LAG explained, LAGs are able to identify their own priorities which means there is no one size fits all model and this approach has 'local credibility'. ⁷⁴
186. Some, however, advised caution in relation to devolving funding below national level with the YPC suggesting that the capacity and capability to administer structural funds was “highly variable” among Scotland’s local authorities. Instead, it advocated a “national pot reflecting regional priorities aligned to current public funding provision” which it felt, would avoid some of the challenges faced with city deals and Fair Start. Colleges Partnership spoke of the importance of a national approach should the UK be eligible for various programmes as a third country. Zero Waste Scotland also expressed the view that whilst a regional approach had its advantages on a project basis, “to ensure best alignment of outcomes at a national level, the Scottish Government is best placed to allocate funding and determine the accountability processes in the future.” ⁷⁰
187. The Federation of Small Businesses (FSB) and others spoke of getting the balance right between national, local authority and community level decision taking. Whilst the local level approach of LEADER has worked, FSB noted that—

” if there is too much local decision making, we have noticed that there can be a tendency to duplicate, with everybody coming up with their own scheme when there might already be a national programme or service.

We think that the balance has to be somewhere between there being an element of national control by the Scottish Government, which can provide oversight and a strategic framework, and more local input into how funds are spent.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Susan Love (Federation of Small Business), contrib. 115⁷⁵

188. This view was reflected by others such as Aberdeen City Council and SNH who explained that the way that funds should be managed, including the most appropriate level for decision taking, should be designed around the benefits they are designed to achieve. "There is no one size fits all approach that will deliver that." ⁷⁶
189. A common theme across our workshops was that EUSF programmes had delivered greater partnership working across Scotland and there was wide support for this to be continued through any UKSPF. Those attending our Dunfermline event highlighted how partnership working was key to understanding where needs are greater.
190. ICAS called for the creation of a model that recognised a “parity of esteem” among partners in order to meet the needs of Scotland’s diverse communities and the YPC

echoed this view stating that it was critical for the third sector to have parity with public bodies. They also called for “a specific allocation of funding for the third sector, managed by the sector” by way of a third sector governing body accountable to the Scottish Government.⁶³ A similar approach was put forward by SCVO.

191. Others suggested the creation of new bodies to oversee delivery of funding within Scotland either at national or regional level. Highland Council advocated the creation of a Joint Regional Body including central and local government political representation and supported by a dedicated secretariat to prepare a regional plan and oversee and monitor delivery. Fife Council, Dundee Council and ESEC stated that an Independent Administrative Body was “critical” to ensure separation between the decision making body and the operational administrative and audit body and ensure transparency. Morag Keith called for the creation of a single Scottish Funding Agency with responsibility for the development of a Scotland-wide funding strategy on the basis that a UK level programme would “remove existing devolved authority over areas such as procurement.”⁷⁷
192. Responding to the EEFW Committee the Minister explained that key for the Scottish Government will be how an overarching strategy and objectives at a Scottish level enables or limits the extent to which decision taking can be devolved further. The Scottish Government will therefore have to consider the extent to which “the fund needs to be coherent strategically at all-Scotland level and how much we want to devolve responsibility to the regions to allow different choices to be made at region level.”⁷⁸

193. We agree that key to deciding where decisions on allocation of funding are taken will be the outcomes that funding is to deliver. Currently, subsidiarity underpins EU Structural Funding resulting in decisions taken across Scotland by a range of different national and local public sector bodies. Whilst this empowers organisations to take decisions informed by specialist knowledge and local circumstances, as we heard, it can also lead to a complex funding picture and can require additional management resources of lead partners.
194. We recommend that the Scottish Government's steering group considers the current picture of EUSF funding bodies across Scotland with a view to determining if further simplification is achievable based on the outcomes UKSPF funding should deliver. This should include whether others such as the third sector should have a role in allocating funding and whether there are useful lessons that can be learned from the LEADER LAG approach to balancing national and local priorities.

Replicating the current approach

195. In considering how post-Brexit funding may operate in Scotland, a number of those we spoke with had views on the extent to which the current Scottish Government approach to allocating funding should be replicated.

196. According to the Scottish Government, managing SIs through lead partners has some very specific advantages for Scotland—
- It gives us the tighter focus required by the [European] Commission
 - It gives us up-front agreement on what outcomes and impacts the programmes should achieve
 - It ensures funding stability (Funds and match) in the long term for important areas of work; and
 - It manages the audit burden at a higher level, allowing smaller organisations to focus on what they do best - delivering quality outcomes.¹
197. There were mixed views on the extent to which the current system of SIs followed by an operations phase should be retained. Several respondents commented that whilst the lead partner approach may have been sound in principle, it had failed to deliver in practice. SLAED stated that it was “unconvinced about the value added” of the SIs approach and highlighted the “great deal of overlap in the information sought” for SIs and the operations phase whilst the associated “extensive paperwork” significantly slowed down the approval process.³⁷ South Lanarkshire Council agreed, recommending that whilst the process was “fundamentally a good system that works well for many funds”, delivery had been impeded by “administration systems and two stage application process and layers of claim process steps” which it felt should be streamlined.⁷⁹
198. Glasgow City Council agreed that if a two-stage process is to continue, “then the SI stage should be streamlined with detailed consideration of issues such as procurement and state aid etc being left to the operations phase.”⁸⁰ West Dunbartonshire Council felt that SIs could “overcomplicate delivery” although it suggested that the existing process should be retained initially “to enable a smooth transition” before moving to a new model.⁸¹ Fife Council felt that in relation to the Lead Partner system the allocation to inexperienced lead bodies had proven to be “too steep a learning curve.” However, it was of the view that “there remains a case for delivering the funding programme through experienced lead partners.” It considered that the system of SIs and then an operations phase had led to a reduction in third sector involvement and called for “a system of allocating to the local level which ensures that activities across multiple priorities can be supported as part of a larger package.”⁵²
199. COSLA in its evidence to the EEFW Committee also had some concerns that its expanded role with SIs has resulted in councils taking on additional responsibilities which then often reduced their ability to influence. As such it considered councils were acting as mini-Managing Authorities but without the range of local discretionary powers and with a focus on delivering national rather than local outcomes.
200. In 2017 the Scottish Government undertook a review of the programmes, triggered by the result of the EU referendum. That review found that “despite changes since the programmes were developed, the original intervention logic for both Programmes remains sound. However... some adjustments to both the scope and allocations are required.”¹

201. In considering the approach to allocating structural funding across Scotland, we heard that whilst the current approach merits retaining, particularly during the transition to the UKSPF, there requires to be some streamlining. In particular the range and number of lead partners involved and approach of using SIs followed by an operations phase should be considered further by the Steering Group. This is especially important should the Steering Group identify that they are acting as a barrier to effective take up of funding under the UK Government guarantee.
202. Later in this report we make recommendations about the management and administration of the UKPSF across Scotland, following any Brexit.

Methods of allocation and outcomes

203. Assuming that funding under the UKSPF is allocated to the Scottish Government to manage, there were a range of views as to whether the existing mechanisms by which funding is provided and the outcomes it is used to achieve should be replicated.
204. Many of the issues previously identified in this report in relation to match funding and competitive funding remain if used as mechanisms to provide funding across Scotland. Similarly the challenges of deciding which measures of need most accurately reflect Scotland also remain. As Comhairle nan Eilean Siar observed—

” it is a fiendishly difficult job to find a funding formula for the whole of Scotland. However—and I think that this would apply across local government—we cannot simply apply mechanistic formulae such as the Scottish index of multiple deprivation. Good though that is, it does not work for all parts of Scotland. None of these things is perfect, but we need to consider a combination of things including gross value added, gross domestic product, income per head, population issues, remote and rural factors and island proofing.

It is not going to be easy, but the principles of EU cohesion funding should not be lost in the calculation. It is about having equivalence and a level playing field, and about diminishing structural disadvantage—those should always be the main criteria.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Malcolm Burr, contrib. 148⁸²

205. SCVO and others highlighted the National Performance Framework as an approach to prioritising funds within Scotland with SCVO observing that—

” It has absolutely the right kind of focus. It covers human rights and equality aspects, as well as the link to the responsibility for tackling climate change. It is a really good framework for us to use, because it has a lot of trust from a whole range of people and sectors, as well as international credibility, because it is now integrated with the sustainable development goals.

Source: Finance and Constitution Committee 12 June 2019 [Draft], Ruchir Shah, contrib. 172⁸³

206. Professor Bell suggested that there could be a set of outcomes which vary between different parts of Scotland but which are still consistent with the National Performance Framework. He highlighted the recent move to maximising social capital.
207. Others highlighted the Scottish Government's Economic Strategy priorities (investment, innovation, inclusive growth and internationalism) as potential priorities for post-Brexit funding. The opportunity to improve funding for environmental programmes in line with the renewed focus on climate change and environmental sustainability was also suggested. There was a broad consensus that priorities must be long-term and strategic in nature.
208. In line with the focus on a place-based approach, several respondents including Angus CPP proposed that funding should align with local authorities' local outcome improvement plans whilst Stirling Council and SNH suggested that local stakeholders should have the flexibility to develop their own strategies in a similar way to the way in which the LEADER programme operates. This was described as "granularity" by respondents including Glasgow, Argyll and Bute and South Lanarkshire Councils – something that had been lacking from previous programmes in their view. EHRC observed that setting local priorities will allow the needs of marginalised groups and people who share protected characteristics to be targeted.
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209. There was a broad consensus that greater flexibility was required with numerous respondents calling for regional and/or local design within a national framework with a project-specific, outcomes-based focus, particularly those from more rural and peripheral parts of Scotland. Highland Council stated that funding "needs to recognise and respond to regional disparity and focus on improving regional competitiveness and inclusion (people and place)" recommending that "the areas to benefit should be identified by clear and objective criteria, including multiple factors such as low and sparse population, peripherality, insularity and challenging geography."
210. The RSE agreed that "funds should be used to address sub-regional disparities and differences that are often more evident in rural areas." Fife LEADER LAG highlighted its view that structural funds should be equally divided between urban and rural areas, particularly where they scored highly on the SIMD.
211. A needs-based approach to allocation was advocated by some with HIEP (and others) stating that "policy and delivery mechanisms should be led by the devolved administrations, with the power to devise measures meeting the needs of different regions, on a partnership basis, as part of a place-based strategy." HIEP suggested that "an appropriate mix of competition and strategic allocations could be agreed at regional level, in line with regional needs and capacity, with sufficient flexibility to vary the delivery model from region to region." ⁶⁶
212. It was also suggested by Scottish Cities that the UKSPF provided an opportunity to consider the devolution of future UKSPF funding decisions to the city/city region level where this supports and facilitates the delivery of inclusive growth objectives. Scottish Cities stated that the UKSPF "should enable cities to capitalise on their city deal investments by providing funds to support the delivery of key infrastructure to make the cities inclusive, smart and sustainable places to live and work." ¹⁰

213. SNH spoke of its experience of administering funds using a challenge fund approach. Whilst it felt that this had a number of strengths, it lacked flexibility and SNH considered that a co-production, partnership approach would better deliver multiple outcomes. The SFC felt that whilst broad objectives were necessary, there were circumstances where it would be unfair to make funding contingent on the achievement of specific outcomes that were outwith the control of lead partners or delivery agents, such as the success of individual students at college.
214. There were mixed views as to whether the ringfencing of any funding allocated within Scotland was an effective delivery mechanism. Colleges Partnership accepted that “in some circumstances, ringfencing is an effective means of ensuring sufficient finance for more complex aspects of scope or scale or where there is a need to build capacity.” Ringfencing could also prevent over delivery on “easier” activity or ‘low hanging fruit.’ Highland Council and HIEP agreed that “delivery bodies/lead partners need ringfenced funding with clear purpose/outcomes defined and guidance (not prescription) on project type” in order to bring added value to existing activity and resources.⁶⁶
215. ESEC suggested that local authorities should be given “control and autonomy over their share of the UKSPF” and should not be expected to ring-fence funding from their allocation to support national initiatives or statutory duties. ESEC advocated the agreement of a formula between all levels of government to determine how funding is allocated to local government.⁸⁵ However, Historic Environment Scotland considered that “greater emphasis could be placed on the fund’s use in advancement of progressive legislation and certain monies could be ringfenced for this, including community empowerment and climate change legislation.”⁸⁶ Zero Waste Scotland favoured a focus on funding specific outcomes “providing there is flexibility in the approach taken to achieve them.” It also called for the introduction of a “discovery phase” in future rounds which it felt would lead to “stronger programmes and more realistic pre-intervention estimates of impact.”⁷⁰ West Dunbartonshire and Stirling Councils also took the view that ring-fencing could be useful as long as it came with the flexibility to respond rapidly to changing circumstances or priorities.
216. In considering whether the current priority policy areas for EUSF should remain post-Brexit there were suggestions of other areas for funding including:
- the “key role of agriculture, crofting, land management and fisheries” to be recognised and integrated into regional support (as called for by several Highland and Island based bodies including UHI, Highland Council and HIEP)
 - “speculative funding for innovation” (as called for by SNH and Comhairle Nan Eilean Siar who suggested areas such as in wave energy and energy efficiency)
 - Zero Waste Scotland called for “support to drive the transition to a Scottish Circular Economy.”
 - tackling unemployment, and investment in addressing in-work poverty, underemployment, skills gaps and increasing productivity and facilitating career transitions for those already in employment given the current, relatively low rates of unemployment in Scotland.

- Colleges Partnership also called for investment to promote active and global citizenship to “help rebuild and strengthen the social bonds in local communities.”
- continuing to invest in equality and human rights (as called for by EHRC)
- “support for key industries and growth sectors with high numbers of non-UK EU staff which are vulnerable to staff shortages after Brexit.” as proposed by the Scottish Funding Council ⁸⁷

217. There were also some policy areas which are currently funded by EUSF but which respondents considered should not be included within any UKSPF. Angus Community Planning Partnership felt that employability funding had been “extremely difficult to bid for, deliver and monitor” under ESIF and stated that “the model in place with skills agencies is more effective.” ⁸⁸ Orkney Islands Council made a similar point, stating “the landscape for support for employability has become very crowded which has led to confusion over which funding stream is most beneficial.” ⁸⁹ Aberdeenshire Council stated that “farm diversification activity has proved difficult to deliver within LEADER” due to its highly specialist and technical nature and would be “better delivered through the wider Scotland Rural Development Programme.” ³⁴

218. The Minister explained that the Steering Group will consider a range of issues—

” We have initial ideas on the areas that it may want to consider, which are the fairly obvious ones that we have talked about, such as regionality, the needs-based approach, the length of the funding period and the balance between flexibility and control of public funds.

The steering group will consider those questions and formulate a consultation exercise, which will then be put to public consultation in the autumn.

Source: Finance and Constitution Committee 26 June 2019 [Draft], Ivan McKee, contrib. 16⁹⁰

219. Key to determining the extent to which the Scottish Government can decide its own priorities for future funding will be how widely or narrowly the UKSPF is framed such that the Scottish Government requires to align its priorities to those of the UKSPF. We agree with the Scottish Government that the current flexibility in the allocation of EUSF funds should not be reduced under the UKSPF.

220. We recommend that in terms of the mechanisms for allocating funding across Scotland the key starting point must be the outcomes that funding is intended to achieve. Such an approach chimes with the evidence we heard that there is merit in aligning UKSPF funding within Scotland with already existing Scottish priorities such as the National Performance Framework. We recommend that the Steering Group considers this and the evidence we received on priorities for funding across Scotland.

221. We recognise the benefits in retaining tried and tested mechanisms of funding especially during any transitional phase. We suggest, however, that the Steering

Group should consider whether there is also a place for funding of more innovative programmes or activities which although potentially risky could, if successful, deliver greater gains than is currently possible.

222. We note that the Steering Group will consider these issues further. We will also discuss them with the Minister in Spring 2020 together with his conclusions on the funding approaches and priorities for disbursing shared prosperity funds across Scotland.

Management and Accountability

223. One of the key aims of the UKSPF as set out in the 2017 Conservative manifesto is that it "will be cheap to administer, low in bureaucracy and targeted where it is needed most".
224. Under the current programme, management and oversight of EUSF is exercised by the Managing Authority - the Scottish Government. IT systems are used to administer funds with documentation and verification procedures implemented based on EU requirements operating across all 28 members states. Audits are undertaken by the Managing Authority but also by the EU Commission. Performance against the Funds' targets and milestones is tracked through six-monthly reporting to the Joint Programme Monitoring Committee (JPMC) and Annual Implementation Reports to the European Commission.
225. The JPMC monitors the performance of the European Regional Development Fund (ERDF) and European Social Fund (ESF) programmes against specific milestones and targets, and assesses the Funds' contribution to the strategic aims of the EU's growth strategy, EU2020. The committee is responsible for ensuring any EU-funded activity contributes to equality and sustainability, and can recommend changes to the Operational Programmes where required. It also maintains a risk register.
226. Currently the Scottish Government works with the European Commission which ensures accountability for funding. A key decision is therefore who will undertake that role in relation to the UKSPF. As the IFS highlighted in June 2018—

” the requirements for governance, audit and management will depend on, for example, whether the money is being rolled into the block grant and the Scottish Government has complete freedom over how it spends the money, or whether the objectives are being set at the UK level and Scotland has freedom within certain bounds and parameters.

Source: Finance and Constitution Committee 13 June 2018, David Phillips, contrib. 11⁹¹

227. There was a consensus across the evidence we received that the current monitoring, evaluation and compliance activities are overly complex and bureaucratic although respondents did recognise the need for proportionate audit arrangements to ensure transparency and accountability. Reducing bureaucracy could be easier under the UKPSF given, as Professor Bell noted, much of the EU bureaucracy is associated with preventing corrupt use of funds.⁴⁶ There are therefore opportunities for a more simplified, trusting approach to management and oversight of the UKSPF.
228. At an EU-wide level, a consultation in 2018 identified complex procedures leading to high administrative burdens and delays, and heavy audit and control requirements as the most important obstacles preventing current programmes/funds from successfully achieving their objectives. That consultation suggested:
1. fewer, clearer, shorter rules
 2. better alignment between EU funds and

3. more flexibility of activity once funding is eligible

as steps most likely to help further simplify and reduce administrative burdens under current programmes/funds ¹

Administration

229. A number of respondents highlighted the negative impact of bureaucracy with the Industrial Communities Alliance echoing many of the views we heard—

” the current labyrinthine administrative mechanisms stifle innovation, flexibility and delivery of the programme. It is clear that the new fund offers an opportunity to listen carefully to the people who work with the funds from day to day about the lessons that have to be learned.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Roddy MacDonald, contrib. 160⁹²

230. Dundee City Council (in June 2018) along with others more recently proposed the simplification of funding streams with "a single rule book across programmes" and that "any governance arrangements are the same regardless of the programme that applied." ⁹³ As noted earlier in this report there are calls for the number of different funds currently available to be 'rationalised' in future with ESEC highlighting that under the current approach there are a plethora of different systems for different funding streams. They called for "an enhanced, harmonised IT system" to be designed and thoroughly road-tested.
231. A number of those we heard from highlighted IT systems as being a particular barrier to administering EU funding with Aberdeenshire Council and Angus CPP (amongst others) highlighting that the European Management and Fisheries Fund system is straightforward and has worked very well compared with the European Union Management Information System and the Local Actions in Rural Communities system.
232. Scottish Enterprise agreed that IT systems had proven to be burdensome, something that it attributed to the requirement for "partners to design operational delivery on a cost evidencing (input) model whilst also having to deliver and evidence an output model." HIEP also highlighted that the limitations of broadband in some areas of Scotland meant that any future system had to have a "fallback" such as a paper-based system so has not to add unnecessary stress to applicants. ⁹⁴
233. The current claims system should also be changed under any new funding approach with calls by a range of those in receipt of funding for greater trust. Angus Council stated "the UKSPF requires one user friendly claim process that reduces the amount of data required to be provided for verification." SOLACE and Argyll and Bute Council suggested that "assurance could be secured through a combination of up-front systems checks and random checks during the course of implementation." West Dunbartonshire Council suggested that national standards for employability delivery should be established for which providers can apply for registration (to be renewed every 3-5 years). Once they have proven that they meet the required standard, a "lighter-touch" approach could be taken to compliance and evaluation

based on “clear and definitive national rules.”⁸¹ RSPB Scotland made a similar suggestion in respect of charities that were already registered with and regulated by OSCR.¹⁷

234. Universities Scotland also called for “greater use of different funding methodologies, such as unit cost models and lump sums” which would reduce the likelihood of errors.⁷¹ Colleges Partnership agreed that “claiming against programme outputs and using unit costing methodologies was and is still an attractive prospect” before making a plea “that the management of the new programme focuses on the delivery of priorities and does not displace energy on administrative procedures and record keeping.”³²
235. There were also calls for the system to change to accommodate upfront payments as opposed to the current retrospective payment approach, something that would be particularly beneficial to small organisations. SNH, for example, called for payment of claims on invoice to be permitted to address delays between spend being incurred and receipt of funds. RSPB Scotland made similar suggestions and called for the acceptance of digital evidence given that “original paperwork is a thing of the past.”¹⁷
236. West Dunbartonshire Council called for streamlining of the process, stating that local authorities “often have to operate at risk” before the grant is received, something they are increasingly reluctant to do given budget constraints.⁸¹ Fife LEADER LAG and ESEC also called for the UKSPF to allow upfront payments and adopt proportionate reporting requirements to make it more accessible to small scale projects in a similar way to the approach taken by the National Lottery Fund.
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237. Stirling Council recommended that funding for management and administration should be available at 100% for additional costs incurred. It also suggested that verification of supported participants should be simplified given that it was common for individuals accessing employment support to have chaotic lifestyles meaning documentation was not always available or up to date.⁶⁸ Orkney Islands Council called for an end to the current system whereby local authorities have found themselves in the role of intermediate bodies “taking on the financial and legal responsibilities for applications from the third sector.”⁸⁹
238. It is the YPC's view that “overly restrictive rules and regulations stifle innovation and collaboration” and prevent projects from evidencing the full scope of their impact. Instead, it advocated a focus on customer satisfaction rather than on compliance in keeping with a ‘person-led’ approach which helped assess soft skills in addition to hard outcomes.⁶³
239. The Minister also spoke of proportionality and simplification when giving evidence to the EEFW Committee —

” we do not want a rigidly bureaucratic programme; we want to simplify the management of the programmes where possible, in line with public finance standards, to ensure that funding is spent appropriately and audited proportionately. By aligning the strengths of the programmes with Scottish policies and priorities, including the national performance framework, the economic strategy and the enterprise and skills review, we need to strike a balance between compliance and complexity that will maximise the impact of future programmes on Scotland.

Source: Economy, Energy and Fair Work Committee 11 September 2018, The Minister for Trade, Investment and Innovation (Ivan McKee), contrib. 5⁴⁸

Audit

240. Currently the Scottish Government works with the European Commission which ensures accountability for funding. A key decision therefore is who will undertake that role in relation to the UKSPF.

241. The YPC stated that “continual changes to the interpretation of regulations is proving to be the biggest challenge” and questioned whether compliance provided the best value for public funds, stating “it seems incongruous to spend such a large portion of disbursed funds on protecting the public.”⁶³ Aberdeen City Council observed that “more and more we are finding that the compliance requirements are disproportionate to the support we are trying to provide”. Whilst recognising that need for accountability for public funds—

” there needs to be proportionality. If the focus is more on accountability and compliance than on delivering support for individuals who require it, something has gone wrong and the balance must be addressed.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Stuart Bews, contrib. 156⁹⁵

242. A number of those we heard from highlighted the benefits of using existing audit arrangements such as Audit Scotland to undertake audit of any future funding under the UKSPF. It was suggested by HIEP that the use of existing internal and external audit systems would avoid duplication.⁶⁶

243. Angus CPP proposed that Audit Scotland should provide “a comprehensive and flexible auditing service” to provide consistency and alignment with SG processes whilst Highland Council made a similar request. Comhaile nan Eilean Siar echoed these comments suggesting that—

” Lessons could be learned from how Audit Scotland goes about its work on auditing outcomes across the public sector, which is proportionate but rigorous.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Malcolm Burr, contrib. 163⁹⁶

244. Proportionality when it come to the administration and compliance requirements recipients are expected to meet was a common theme across our evidence taking. HIEP also called for proportionate measurement of impact, explaining that a project which creates a small number of jobs in a remote area could have a far greater

impact than a project creating the same number of jobs in a city. Stirling Council advocated a consistent approach to the evidencing of value for money across all funds whilst allowing local flexibility on criteria where appropriate.

245. The Minister also acknowledged the complexity of the current audit arrangements observing that in relation to funding committed under the transitional arrangements—

” given the complexity of the audit requirements, it is difficult to predict whether we are going to miss a target because someone does not comply with audit requirements at some point down the line or because we do not have enough proposals or programmes coming forward to utilise the funds.

Source: Economy, Energy and Fair Work Committee 11 September 2018, Ivan McKee, contrib. 13⁹⁷

246. One of the issues highlighted at our workshops was the pre-suspension currently in place in relation to ESF funds which the Minister confirmed had affected £9.6 million. This was funding that, in June 2019, the Government had not yet been able to claim back from the EU. The Minister explained that the pre-suspension related to four issues (one related to flat rate costing and three to procurement) and had been identified by the EU audit process. The Minister stated that the solution to all four issues had been agreed in principle by the EU and that he would expect that—

” We are certainly expecting this to be cleared before November, but it should all be resolved prior to that. It will be resolved within that timeframe.

As I said, the important point to recognise is that it is to do with the flow of funds from the EU to the Scottish Government to the lead partners. The flow from the lead partners to the delivery agents on the ground has continued and has not been affected by the pre-suspension.

Source: Finance and Constitution Committee 26 June 2019 [Draft], Ivan McKee, contrib. 41⁹⁸

247. The Minister also highlighted that there is a balance to be struck between ensuring that public money is spent correctly and allowing as much flexibility as possible for organisations to deliver.

Evaluation

248. Given the purpose of the UKSPF is to reduce inequalities between communities, a key question posed by some witnesses was how the success of the fund should be measured. Professor Bell suggested that—

” It seems to me that the size of the funds would not in any way make a significant difference to spatial inequalities, although it is important that, if they funds do have significant effects, they are demonstrable. A significant part of the budget has to be set aside for evaluation so that any genuine additionality from spending public money can be shown.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Professor Bell, contrib. 120⁹⁹

249. Zero Waste Scotland called for the consistent adoption of “Scotland’s innovative Carbon Metric” to increase the use of common indicators for reporting and

evaluation. Given that the benefits of low carbon projects would only become apparent in the longer term, Zero Waste Scotland also advocated an extension of the current reporting framework to capture data after programme completion. The EHRC recommended that equalities data on protected characteristics should always be sought from beneficiaries to facilitate effective monitoring and evaluation of project impact. However, Morag Keith took the view that it would be prudent to continue to mirror EU procedures given the lack of clarity around the future relationship with the EU and the UK's potential future participation in EU programmes as a third country.

250. There were several calls for greater emphasis to be placed on measuring outputs rather than inputs with Comahirle nan Eilean Siar highlighting the need for reasonableness in evidencing outcomes with a recognition that outcomes can be achieved in different ways.
251. Professor Bell explained that, alongside an outcome-based approach, how to evaluate those outcomes is important—

” We can have outcomes at different levels. One level of evaluation is considering whether a project achieved the stated outcomes that were written into it at the outset. That is important, but we also need overall evaluations, which are generally undertaken after the event.

Source: Finance and Constitution Committee 19 June 2019 [Draft], Professor Bell, contrib. 186¹⁰⁰

252. We agree that in relation to post-Brexit funding under the UKSPF there are opportunities to provide a more proportionate, simplified approach to managing and administering future funding.
253. Given our recommendation at paragraph 171, that the decision taking powers the Scottish Government currently exercises in relation to funding received under the EUSF should not be reduced under the UKSPF, we consider that monitoring and oversight should also continue to be undertaken in Scotland. This is important given activities funded by the UKSPF in Scotland will reflect Scottish priorities and policy approaches.
254. We have invited the Steering Group to consult on simplifying the range of funds available in Scotland. Consideration should, however, also be given to providing a single, more simplified and standardised approach for applying for and reporting on a range of funds as compared with a bespoke system for each fund.
255. We recommend that a more proportionate management and compliance approach should be taken to better reflect the level of funding recipients receive.
256. We consider there is no need to start from scratch in relation to management of the UKSPF within Scotland given the level of knowledge and learning about the current and previous management systems. We suggest that building on the best parts and changing the worst would be a more prudent approach given the timescales during which the new fund may require to become operational.
257. We agree that there are considerable benefits in utilising the existing Scottish public audit regime which is well regarded by all those we spoke with as being

robust and proportionate. This approach will also avoid duplication with other public body audit requirements. Audit Scotland already has existing collaborative audit approaches with the UK and other devolved audit institutions. This should enable a UK wide audit approach for the UKSPF to be delivered quickly and more cost effectively as it builds on existing audit knowledge (including that of EUSF).

258. We note the Minister's explanation that he expected the issue of the pre-suspension in place in relation to £9.6 million of ESF in Scotland should be cleared before November and therefore seek an update on progress in resolving this issue. We invite the Steering Group to include any lessons learned within its deliberations.
259. Finally we recommend that alongside the development of management systems, consideration should be given to how the UKSPF will be evaluated. Building such approaches in from the beginning will facilitate the effective collection of data from the start and will enable the UKSPF to be more quickly adjusted if it appears that it isn't reducing inequalities across communities as anticipated.

Conclusions

260. The UKSPF has been proposed by the UK Government to replace EU Structural Funds, following any Brexit. Designed to tackle inequalities through strengthening productivity, the UK Government explained that UKSPF will provide a simplified, integrated fund which will respect the devolution settlement. We welcome the intention to replace EUSF which are a valued source of support for communities across Scotland. We seek clarity as to the impact of the UKSPF on devolved policy choices given its connection to the UK Industrial Strategy. We consider the decision taking powers that the Scottish Government currently exercise under the EUSF should not be reduced under the UKSPF. The flexibility for the Scottish Government to distribute its post-Brexit UKSPF funding according to its priorities should be no less than that currently available under the EUSF.
261. A key concern throughout our report is how the transition from EUSF to the UKSPF will be managed effectively given its fast approaching start date of January 2021. As we heard, the delay to the UKSPF consultation which was originally proposed by the UK Government for the end of 2018 has added to the uncertainty for stakeholders and is impacting on transition planning by current EUSF recipients as well as potential new applicants. Given this we consider that there should be a greater sense of urgency in developing the UKSPF so that valuable expertise, knowledge and capacity is not lost before the UKSPF becomes operational.
262. In our report we recommend that, to better manage this transition, funding under the UKSPF should replicate some aspects of the current EUSF approach with a seven-year funding period and with the Scottish share pre-allocated across each of the seven years. We recommend that Scotland's share of the UKSPF should be no less than it is currently and that any future needs-based funding approach should be developed in partnership across the UK and Devolved Governments. We also recommend that UKSPF monies allocated to Scotland should be subject to Scottish Parliamentary scrutiny. The outcomes from the Scottish Government's steering group consultation on the UKSPF and the UK Government's development of the UKSPF should also be subject to parliamentary scrutiny.
263. In relation to how funding is spent in Scotland, we consider that there is no need to start from scratch and instead the best parts of the current approach should be built on. We suggest however that the steering group considers further simplification of the current approach and, in particular, we highlight opportunities for simplification of funding streams and application processes. We recommend a robust and proportionate approach to audit of the UKSPF in Scotland such as utilising the existing Scottish public audit regime and that effective evaluation should be built into the UKSPF from the start so that its impact on tackling inequalities is evidence based.

Annexe A

264. Written evidence

The Committee received the following responses to its call for views—

- [Aberdeenshire Council](#)
- [Highland Council](#)
- [Angus LEADER Local Action Group](#)
- [Stirling Council](#)
- [Shetland Islands Council](#)
- [Argyll and Bute Council](#)
- [Colleges Partnership](#)
- [Culture Counts](#)
- [South Lanarkshire Council](#)
- [Orkney Islands Council](#)
- [Orkney LEADER Local Action Group](#)
- [COSLA](#)
- [Industrial Communities Alliance Scotland](#)
- [Creative Scotland](#)
- [Historic Environment Scotland](#)
- [Scottish Cities](#)
- [Fife LEADER Local Action Group](#)
- [Fife Council](#)
- [Equality and Human Rights Commission](#)
- [Highlands and Islands European Partnership](#)
- [The Young People's Consortium](#)
- [SOLACE](#)
- [Highlands and Islands Enterprise](#)
- [Glasgow City Council](#)
- [University of Highlands and Islands](#)

- [Scottish Enterprise](#)
- [West Dunbartonshire Council](#)
- [East of Scotland European Consortium \(ESEC\)](#)
- [Royal Society of Edinburgh](#)
- [Comhairle nan Eilean Siar](#)
- [Margaret Cuthbert](#)
- [Dundee City Council](#)
- [Universities Scotland](#)
- [SNH](#)
- [East Lothian Council](#)
- [RSPB](#)
- [North Ayrshire Council](#)
- [South of Scotland Alliance](#)
- [SLAED](#)
- [Angus Council](#)
- [Angus CPP](#)
- [Morag Keith](#)
- [West of Scotland European Forum](#)
- [Museum Galleries Scotland](#)
- [Scottish Funding Council](#)
- [SCVO](#)
- [Zero Waste Scotland](#)
- [David Bell, University of Stirling](#)
- [Anonymous \(1\)](#)
- [Anonymous \(2\)](#)

A summary of the responses was published on the website at the following link—

[Summary of written evidence \(219KB pdf\)](#)

Oral evidence

The Committee took oral evidence at the following meetings —

14th Meeting 2019 - 12 June 2019

- Kate Still, Director, Princes' Trust on behalf of the Young People's Consortium;
- Ruchir Shah, Head of Policy, SCVO;
- Ross Johnston, Deputy Director (Sustainable Development), Scottish Natural Heritage;
- Nora Uhrig, Senior Associate - Programmes Scotland, Equality and Human Rights Commission;
- Dugald Craig, Chief Executive, Colleges Partnership;
- Susan Love, Policy Manager, Federation of Small Business.

15th Meeting 2019 - 19 June 2019

- Angus MacLeod, Policy Officer, Highlands and Islands European Partnership;
- Stuart Bews, Senior External Funding and Policy Officer, Aberdeen City Council, on behalf of Scottish Cities;
- Roddy MacDonald, Scotland Director, Industrial Communities Alliance;
- Professor David Bell, Professor of Economics, University of Stirling;
- Malcolm Burr, Chief Executive, Comhairle nan Eilean Siar;
- Gill Lawrie, Vice Chair, Angus LEADER Local Action Group;
- Lynn Murray, Chief Finance Officer, Zero Waste Scotland.

16th Meeting 2019 - 26 June 2019

- Ivan McKee, Minister for Trade, Investment and Innovation;
- Hilary Pearce, Deputy Director, European Structural Funds and State Aid Division;
- Susan Tamburrini, Team Leader, Smart Growth, European Structural Funds, Scottish Government.

Engagement workshops

The Committee held engagement workshops on 3 and 4 June 2019 in Inverness, Dunfermline and Paisley. A summary note of points raised during each of the workshop discussions is provided on the website—

- [Inverness](#)
- [Dunfermline](#)

- [Paisley](#)

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