CONVENTION OF THE HIGHLANDS AND ISLANDS
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(Paper 4(a))

Scotland – After ESIF: The Community Renewal Fund, the Levelling Up Fund, and the Shared Prosperity Fund

Key Points

The Scottish Government published an outline proposal for a Scottish Shared Prosperity Fund on 19 November ‘20.

UKG subsequently published details for the UK Shared Prosperity Fund (UKSPF) at the Spending Review on 25 November ‘20.

UK Government will use the financial assistance powers created in the Internal Market Act to deliver the UKSPF directly to Scottish stakeholders thus by passing the Scottish Government and disrespecting devolution.

UK Government plans mean that Scottish Government will not receive any direct funding to deliver our plans. Stakeholder use of funds will, however, still need to (and should) align with Scottish priorities.

UKSPF will be worth up to £1.5 billion per annum across the UK but will not be operational until FY 2022/23. It will be split into 2 funds: a fund to target places most in need across the UK (broadly the ERDF replacement) and a fund to support people most in need (broadly the ESF replacement).

To bridge the gap until the UKSPF is developed and operational a one year additional funding programme will operate from April ‘21. This is worth £220m for one year across the whole of the UK and the prospectus was published on 3 March ‘21.

In addition, a Levelling Up Fund and a Community Ownership Fund were launched on 3 March ’21. Whilst neither Fund is replacing anything that was previously run from Scotland, both are depriving the Scottish Government of a considerable amount of capital funding that would have been used to support our own devolved policy aims.

UK Community Renewal Fund: 2021-2022

UK Budget published the details of the Community Renewal Fund in spite of no prior engagement or discussion with Scottish Ministers despite repeated requests to UKG.

Devolved Administrations have not been involved at all in development of CRF prospectus - entirely a UKG process without any proper recognition of DA needs.

Projects may align with one, or deliver across several, of the following investment priorities:

(i) Investment in skills
(ii) Investment for local business
(iii) Investment in communities and place
(iv) Supporting people into employment

There will be no ring-fences applied across these themes and 90% of funding available will be revenue.

Focus on bids which build on local insight and knowledge, and project proposals that align with long-term strategic plans for local growth, target people most in need and support community renewal.

Scottish Government has a number of concerns around this Fund:
- It will be competitively allocated across UK/GB;
- 100 ‘priority’ places – so other bids less likely to succeed;
- Match funding ‘encouraged’ – so where no match, less likely to succeed (counter intuitive) – will severely hit third sector;
- No place for further higher education bids;
- Unclear roles for assessing bids which will bring a risk of duplication (Same bidder to multiple funds) appears LAs will request bids and appraise, DA s to be asked for advice where appropriate.

In terms of the 100 priority places Argyll & Bute, North Ayrshire and the Western Isles within the Highlands and Islands are included in the preselected locations.

UK Levelling Up Fund: 2021 – 2025

The Levelling Up Fund aims to ‘invest in local infrastructure that has a visible impact on people and their communities’ It joins the UK Community Renewal Fund and UK Shared Prosperity Fund in breaching both devolution settlements and UK promises.

It is disappointing that the UK Government has again decided to use the powers it has given itself in the Internal Market Act to bypass the Scottish Government and disburse funding directly to Scottish Stakeholders. Again no role for Scottish Parliament and Government on something that previously was wholly devolved this is a clear assault on devolution.

We are not sure about what underpins the categorisation of areas for this Fund which seems to ignore the rurality and population sparsity challenges which are important across the Highlands and Islands.

Also, the priority places for this fund are confusingly not exactly the same as the Community Renewal Fund. Only North Ayrshire from the Highlands and Islands is included in the priority 1 areas.

The value of the Fund is £4.8 billion of which Scotland expects to share £800 million of this with Wales and Northern Ireland.

UK Community Ownership Fund: 2021 onwards

The UK Budget announced a new £150 million Community Ownership Fund to allow community groups to buy local assets to run as community-owned businesses such as pubs, sports clubs, theatres.

Little further information has been provided on how the bidding process will operate so it remains unclear how this Fund will work in Scotland. It is vital that Scotland receives its fair share of this Fund based on the Barnett Formula.

UK Shared Prosperity Fund: 2022-2027

Unfortunately, little is still known about this Fund, the replacement to the EU Structural Funds. Whilst a suite of UK Funding Programmes was published at the Budget, no detail was provided on the SPF.

Current indications are that it will be a 5 year fund which will "on average reach around £1.5bn per year".

The fund will consist of two elements:

(i) An ERDF replacement, which is likely to be run through REPs and will focus on supporting skills communities and business; and
(ii) An ESF replacement, focused on skills and employment support. This is likely to be managed by DWP UK wide but unsure how it will interact with Scottish Skills System.

We continue to be advised by UKG that details will be set out in a UK-wide investment framework which be published in the Spring but thus far have had nothing on the SPF.

<u>Scottish Plans</u>

- In the absence of clarity from UKG, SG undertook an extensive public consultation into the design and focus of the replacement funding over winter of 2019/20.
- On 19 November '20 we published a Position Paper setting out our plans for Scotland's Shared Prosperity Fund.
- The plan was produced with the support of an expert Steering Group, co-chaired by Professor David Bell of University of Stirling and Professor John Bachtler of University of Strathclyde.
- The Highlands and Islands were represented on the steering group by Rob Clarke of HIE and Cllr Steven Heddle from Orkney Islands Council.
- The group's work has informed the development of our position, as have current SG policy priorities.
- The paper outlines how we will seek to use the fund to address and reduce economic and social disparity within and between places and people in Scotland through a partnership approach focusing on four key themes: improving and empowering places, reducing poverty, increasing skills and growing business and jobs.
- There are also two horizontal themes – wellbeing and climate change - which will be integrated in all activity thus ensuring this funding works to help achieve inclusive growth and meet our net zero commitment.
- Decentralisation of funding is at the core of this approach, and we want to ensure that decisions are made as closely as possible to the people, businesses and communities who will be impacted.

<u>LEADER</u>

- It is crucial that the UK Government provides a clear statement on future funding for all aspects covered by CAP. Our rural economy is on the front line of the potential impacts of Brexit, with remote and rural areas likely to be hit the hardest and we need to be able to provide certainty and assurance to those businesses. There remain no funding guarantees beyond 2020 and the UK Spending Review did not provide any clarity on the future funding position.
- It has been indicated that non-farming support currently delivered via the CAP, which includes LEADER will, in future, be covered by the UK Shared Prosperity Fund. However, no clarity or detail has been provided. It is vital that the UKG tells

us more about the Shared Prosperity Fund and how it will support our rural communities and businesses.

- In light of this uncertainty all routes to secure replacement EC funding for a LEADER programme are being pursued. Rural and Island Communities have and are continuing to shown great resilience. This is why community-led development is needed to support inclusive growth in Rural Scotland.

European Territorial Cooperation

- There is no clarity on how and if ETC will be replaced. We have been told that it will be subsumed by the UKSPF but we do not know how this will work in practice and if there will be scope for international collaboration.
- Section 6 of the Internal Market Act includes the provision to give funding for "international educational and training activities and exchanges". This could potentially allow for the UK to provide funding to partners to participate on a project by project basis in ETC.
- Scotland values the opportunities that ETC currently offers and wants to build on these over the next programming period. However, the only 2021-2027 ETC programme that the UK Government has committed to taking part in is PEACE Plus (which covers Ireland & Northern Ireland). Scotland participated successfully in the 2014-2020 Ireland – Northern Ireland – Scotland Cross Border Programme and is in dialogue with Irish partners to understand opportunities for continued collaboration in the new programme.
- Discussions on future programmes with the other countries involved have started and we are working hard to secure our continued involvement in this work.

Next steps

1. Scottish Government officials and Ministers continue to stress to the UK Government that we require full engagement in the development of the funding programmes and that Scotland's share of the funding must be fully devolved.
2. UK Officials from Scotland Office and MHCLG indicated that devolved administration Ministers and officials would be engaged in the development of both these programmes but again we have no more detail about this.

2014 – 20 European Structural & Investment Fund Programmes

- The EU's ESIF programming period ended December 2020 but in fact there are three more years to spend and finalise all projects.
- Some operations have extended from 2020-21 into 2022-23 because they were significantly disrupted due to Covid-19.
- Formal process for 'closure' of both ESF and ERDF programmes will start later this year – EC guidance not yet final.
- ERDF suspension lifted in Dec 2020 and ESF likely to be lifted imminently.
- Need to ensure strict compliance with EC regulations for remaining 3 years.
- Backlog of claims being dealt with as fast as possible.
- EC's CRII flexibilities being used for re-claiming some covid-related health spend.

Future Funding Team
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