

Consultation Questions

A Strategic Aims

Objectives

Scottish Ministers want to take this opportunity to design a flexible source of additional funding that drives inclusive economic growth and makes a measurable and significant difference to the lives of people, businesses and communities across Scotland. With this in mind:

1. What are the main aims that this funding should seek to achieve?

ESF and ERDF have played a significant role in developing Scotland's economy for many years. The loss of such funding would have a significant impact on the ability of local authorities to deliver services and infrastructure initiatives that have supported growth in the economy. The Scottish cities are of the view that future funding needs to enable the cities to continue to deliver services and infrastructure appropriate to their area and focus on reducing inequalities and disparities within and between regions, placing productivity and inclusive growth at the forefront of its goals and objectives. An approach which recognises the critical link between social and economic policy and which understands that investment in one realises dividends for the other is key to the future success of the Scottish cities.

Particular challenges and opportunities to drive inclusive economic growth exist in the following areas:-

Innovation – Scottish Cities already perform well collectively compared to the rest of Scotland in terms of technical innovation but there are opportunities to improve business birth and death rates across the cities by targeting future funding to ensure businesses are equipped to compete and maximise the opportunities offered by data, technology and R & D activity in an increasingly competitive global environment.

Skills and Employability – Skills and the opportunity to access good quality sustainable employment remains key to reducing inequalities, poverty and disadvantage. As Scottish cities contain the greatest concentration of youth unemployment, child poverty and those seeking work it is essential that future funding should continue to support employability and in work skills programmes to address these challenges. Targeting skills funding to address the twin challenges of an ageing demographic and accelerating technological change will be key to future skills programmes.

Place Making – The Scottish cities are projected to be home to an increasingly ageing population and will have a greater reliance on the ability to attract new talent and businesses to continue to thrive economically. Investment in place making initiatives designed to improve physical, cultural, digital and green infrastructure in the cities will be critical if the cities are to be able to attract and retain the work force of the future. Future funding should enable the 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.

Additional investment in innovation, skills and employability and place making will be critical to ensuring the Scottish cities reach their full economic potential creating opportunities for business growth and more and better jobs.

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

As per the response to question 3 below, the diversity of Scotland's cities requires future funding to be flexible to allow cities to respond to need and opportunity at the city/city region level. Ensuring that future funding enables cities and their regions to capitalise on existing investment in their city region and growth deals and regional economic strategies will assist them to address inequalities between areas and communities in Scotland. As per the response to question 10 below, there is a strong argument for ring fencing a greater proportion of future funding to cities in recognition of their role as drivers of the economy and of the mutual benefit to towns in their wider area.

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

The Scottish Cities Outlook report published by the Fraser of Allander Institute in 2019 outlines that whilst the Scottish cities share a number of strengths in terms of their skilled workforce, international reputation and as the location of some of the country's major economic and cultural assets, they also have marked differences, in terms of their scale, relative performance, resilience and industrial structure.

For Edinburgh – challenges relate to managing a strongly growing economy in a sustainable and inclusive way;

In Aberdeen, there is a need to focus on diversification, whilst maintaining its strength as a leading centre for oil and gas and wider energy technologies and services;

In Glasgow and Dundee, there are opportunities to build upon existing strengths and re-invigorate and re-generate existing economic assets; and

In Perth, Stirling and Inverness there is a concerted focus upon their attractiveness as a place to live and work, whilst recognising the distinct strengths each city has to offer in key sectors and developing strategic investments around such strengths.

The diversity of Scotland's cities outlined above provides a strong case for future funding to support local discretion. Current funding has become much less geographically targeted over time and in the 2014-2020 period was largely controlled centrally by the Scottish Government. This approach fails to take account of regional variations in terms of priority and opportunity and provide local flexibility to respond to local, national and global issues as they arise.

Cities should be able to utilise future funding to boost and extend regional economic strategies, notably the city region/growth deals already agreed with the Scottish Cities and their regional partners and the cities' priorities for inclusive growth. There is no need to add another layer of strategy to agreed local plans which have already been developed with and approved by Government and align with national frameworks including Scotland's Economic Strategy and plans for inclusive growth.

Alignment with Scottish Policy and Other Funding Streams

Scotland has a set of high-level strategic documents that guide the direction of our policy development and spend. These are focussed on inclusive economic growth and include our National Performance Framework, our Economic Strategy, our Programme for Government and our new Enterprise and Skills Strategic Board approach.

4. How could the use of future funding add value to other sources of funding focussed on similar objectives in Scotland?

The Scottish Cities are of the view that future funding should be a distinct fund which can be accessed by financial or in-kind contributions subject to the delivery of agreed outcomes. Whilst future funding should be aligned with other funds it should not replace them to ensure additionality. Monies should be provided with as few restrictions as possible. There is no need to pre-determine capital and revenue breakdowns or apply prescriptive allocations by theme. Consideration should be given to reducing restrictions on eligible activities to allow future funding to support local priorities linked to agreed strategies and other funding sources, including a range of key agencies/stakeholders to maximise the investment of the fund and deliver on national priorities.

Alignment with UK and EU Policy

The UK Government has said that the SPF will be aligned with its Industrial Strategy and will focus on increasing productivity. At the same time, the European Union is evolving its Cohesion Policy with a structure of 5 themes: A Smarter Europe; A Greener, carbon free Europe; A Connected Europe; A More Social Europe; and A Europe closer to citizens, to create a more tailored approach to regional development in order to drive EU investments.

5. What practical value would you see in future funding in Scotland being aligned with the UK Industrial Strategy and other spatially differentiated UK economic policies such as the City and Regional Deals or the Industrial Strategy's sectoral approach?

The Scottish cities are supportive of future funding being aligned with the UK Industrial Strategy and other spatially differentiated UK economic policies alongside similar Scottish policies and funding streams. This will ensure city regions are best placed to maximise investments from both Scottish and UK Governments into regional priorities in the same way as the City Region and Growth Deals. The 4 Grand Challenges of the UK Industrial Strategy (Artificial Intelligence and data, ageing society clean growth and future of mobility) align closely with the challenges and opportunities the Fraser of Allander Scottish Cities Outlook report identifies as priority areas of focus for the Scottish cities. Alignment of future funding with the Industrial Strategy will ensure that Scottish cities are well placed to fund activity to address the challenges and opportunities in the Outlook.

On a separate matter the Scottish cities are supportive of working with the Scottish Government to make the policy based argument to the UK Government for increasing the value of funding available in a new funding programme. Whereas Structural Funds were an opportunity for the UK to recycle monies paid into the EU budget, to support regional economic development, the UK Government will be able to make a new funding programme central to their economic plans. On this basis there is a case to be made to the UK Government to increase future funding from the circa £1bn per annum available as part of the current programme to £2bn per annum, the increase essentially reflecting the public sector match funding levels in the existing programme.

The Scottish Cities have already successfully invested in each of the UK strategy's five foundations and the four priorities of Scotland's Economic Strategy, using Structural Funds and other funding streams. With a strong asset base in each city, there is a strong platform for further investment through the UK Government's future funding programme.

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

Policy alignment with the EU in key strategic areas of importance to the Scottish cities will enable them to continue to engage, learn from and add value to EU institutions, to the benefit of both Scotland and our European partners.

Policy alignment with the EU will make it easier for third countries to participate in EU programmes. In the case of the EU's regional policy, this is particularly important for the Interreg programmes which are the internationally delivered regional programmes which Scotland would like continued access to post-2020. Without high-level alignment, it would be more difficult to argue how Scottish partners are contributing to policies which form part of the programmes' assessment criteria.

A further practical outcome of retaining alignment to the European Union's Cohesion Policy is ongoing connectivity to opportunities for collaboration through smart specialisation and Scotland's contribution to mission-oriented approaches to global challenges, which have been prominent in EU policy. In Scotland and across the EU, focus has shifted from a narrow sector and technology focus to aligning behind societal challenges such as climate change and addressing inequalities, which the Fraser of Allander Scottish Cities Outlook report has identified as core challenges for Scottish Cities. The ability for Scotland to collaborate with the EU on innovation and the creation of new market opportunities and supply chains based on creating linkages between regions with complementary specialisms, will be crucial.

Evaluation and Monitoring Progress

In order to ensure that any new fund is achieving its aims and objectives, it is

important that an evaluation approach is developed in parallel.

7. *How could we best evaluate the success of this new fund?*

ESF and ERDF have been based on outputs, often using crude metrics which are then regionally applied at the project level. Future funding should move away from activities and outputs as key measures of effectiveness and value for money to the more relevant and substantive outcomes of investment.

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

The key areas of the National Performance Framework which funding should be targeted towards are:-

1. We have a globally competitive, entrepreneurial and sustainable economy
2. We have thriving innovative businesses with quality jobs and fair work for everyone
3. We are well educated, skilled and able to contribute to society
4. We value, enjoy, protect and enhance our environment

These areas are supported by the Fraser of Allander Scottish Cities Outlook report and by Ekosgen's report "Deploying EU Successor Funding to Support our Cities and City Regions" produced on behalf of the Scottish Cities and Core Cities.

9. Which specific aspects of the monitoring and evaluation framework from European Cohesion Policy do you consider would be beneficial to retain for any new fund?

The process of strategic planning including developing baseline evaluation prior to implementation, a subsequent post programme evaluation as well as a mid-term review have all been useful elements of the current monitoring and evaluation framework which it would be beneficial to maintain as part of a future UK funding programme. It is important that any post evaluation focuses on measuring outcomes (impact) rather than inputs (spend and activities) and can be used to develop future funding programmes. Importantly, any future monitoring and evaluation process should be proportionate to spend, and not hinder the achievement of project objectives. For example, the cities would be supportive of efforts to have the management of projects more focused on achievement of outcomes than the review of every process of input to deliver the outcome.

B GOVERNANCE STRUCTURES OF FUTURE FUNDING

Allocation and Programme Duration

Whilst funding allocations will largely be determined by our objectives, we must make sure that our approach is developed in an appropriate manner which is sensitive to differing needs across Scotland. We also need to be clear about the timeframes over which any funding programme would operate.

10. What approach should be used to allocate the funding at programme level including the most effective duration of the programme that would better support the identified priorities?

The Scottish Cities are collectively of the view that future funding needs to match the 7 to 10 year approach within the existing EU Multi Annual Financial Frameworks but with added flexibility to deal with unforeseen local, national or global issues which may arise during the programme period.

The Scottish cities are supportive of a transparent distribution model for future funding developed either in partnership or consultation with key stakeholders including the Scottish

Cities. A future distribution model should be based on urban need and opportunity and take into account rebalancing the economy, closing the productivity gap and delivering inclusive growth.

As highlighted in the Ekosgen report "Deploying EU Successor Funding to Support our Cities and City Regions," there is a strong case for allocating a greater proportion of future funding to city regions given their track record of ERDF and ESF investment, established local strategies, their capacity and ambition to deliver and the recognition that successful cities have wider spillover benefits for the wider region. The latter point is supported by a recent report by the Centre for Cities "Talk of the Town:- the economic links between cities and towns." The report concludes that towns close to highly productive cities perform better in terms of attracting high-skilled business investment, jobs and firms and they also have lower unemployment rates. In contrast, towns close to less successful cities have higher unemployment rates and have also struggled to attract high paying firms and jobs.

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

The Scottish Cities must be closely involved in the design of any future funding programme including all discussions regarding its scale, focus and management and delivery processes with both the UK and Scottish Governments to ensure their expertise in raising productivity, supporting inclusive growth and tackling inequalities between communities informs the Fund.

It is vital that any future partnership and governance structure includes a simplified and transparent appraisal and decision-making process which is proportionate to the activities being funded and builds on existing local processes where they already exist to reduce bureaucracy. A rebalanced and proportionate attitude to risk and risk sharing is required, which encourages innovation and enables the Scottish Cities to tackle persistent challenges around inclusion.

Although a diverse group, the Scottish Cities and City Regions have led the way in terms of City Region and Growth Deals working closely with Scottish Government and business groups and establishing regional economic partnerships. As a result many of the cities already have robust delivery, appraisal, assurance and decision making procedures and structures in place as well as experienced and senior staff in post to manage and administer major funding streams. The governance of future funding should seek to capitalise on these local structures as the cities and their regions offer:-

- an appropriate spatial scale,
- plans and strategies that take account of and respond to local needs within a national framework
- assets and activities already supporting a range of Local Economic Strategies;
- capabilities and processes in place to support funding allocation, management and monitoring;
- collaborative working with industry and an integrated approach to enterprise and skills; and
- an integrated, place-based approach to future funding and investment.

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

As per the response to question 11 above, as a result of the city region and growth deals and evolving regional economic partnership structures the cities have structures in place for

engaging with key stakeholders from the public and private sector in their region. The cities are supportive of building capacity within these structures to encourage increased investment in a future funding programme (see response question 13 below).

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

The ability of cities to participate fully in the current ERDF/ESF programme has been restricted to some extent by two core issues:-

- i) Capacity within individual city local authorities to develop and manage projects within the scope of the funding rules.
- ii) The ability to identify eligible match funding for project activity.

To improve capacity within and across cities and their regions to participate fully in a replacement funding programme the Scottish cities would welcome:-

1. Commitment from Scottish Government to move towards shared resources between agencies and local government at the regional level to increase capacity to develop and deliver the programme.
2. Commitment from Scottish Government to support and encourage investment into projects from a range of key agencies/stakeholders rather than single partner funding application to maximise the match funding available to deliver projects of scale which deliver on national priorities.
3. Commitment from national government to develop a future funding programme with reduced levels of bureaucracy to make the process of applying for and managing future funds easier.
4. Consideration being given to the rules relating to the funding covering staff time. The Scottish cities would recommend consideration being given to funding rules in this area which are less onerous to evidence and which don't require officers to work exclusively on funded projects in order for their time to be eligible for funding.

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

The Scottish cities are of the view that recent European Structural Funds programmes in Scotland have become very centralised with decision making almost totally internalised within the Scottish Government. Consequently, programme management has not been as transparent as it could have been. A change of approach which enables more buy in to the programme and what it seeks to achieve would be welcome at all stages of the process: from initial programme design through decision making to monitoring and evaluation.

There is also room for improvement on the technical side of the current programme which has proven to be very drawn out and burdensome. One of the major defects of the EU Structural Funds regime has been the increasingly onerous requirements in relation to verification, compliance and audit. There is a real opportunity to streamline the layers of checks by placing

a greater level of trust in city financial management and audit procedures than currently happens.

National challenge funds are not always effective at targeting resources at those areas (either spatial or thematic) where they are most needed. Given that the Scottish Cities Outlook highlights that the diversity of Scotland's cities requires local discretion in certain circumstances to enable cities to respond to distinct challenges in their areas, future funding should consider whether national challenge funds are the best means to address challenges faced across all parts of Scotland.