

REPORT TO: POLICY AND RESOURCES COMMITTEE - 13 JANUARY 2020
REPORT ON: BREXIT UPDATE
REPORT BY: CHIEF EXECUTIVE
REPORT NO: 6-2020

1. PURPOSE OF REPORT

This report provides an update on developments regarding the UK's departure from the EU and on work being carried out to prepare for the implications. In particular, it asks members to approve a draft response to the Scottish Government's consultation on the replacement of European structural funds.

2. RECOMMENDATIONS

It is recommended that members:

- (i) note the latest political developments in the Brexit process;
- (ii) note the work being carried out to prepare for the implications;
- (iii) approve the submission of a proposed response to the Scottish Government's consultation on the replacement of European structural funds, as set out in Appendix Two.

3. FINANCIAL IMPLICATIONS

- 3.1 There are significant financial and operational risks for the Council associated with Brexit. These are being actively monitored by officers.
- 3.2 Fuller impacts will be assessed and reported to Committee during 2020 when there is more clarity on decisions about future trading agreements, funding availability and actual impacts from leaving the EU.

4. LATEST POLITICAL DEVELOPMENTS

- 4.1 The Conservative Party won a majority in the General Election held on 12 December. This means that the withdrawal agreement which the Prime Minister negotiated with the EU in October will now be brought back to Parliament and the expectation is that the UK will leave the EU on 31 January 2020.
- 4.2 Appendix One to this report gives a high level summary of the latest withdrawal deal, comparing it to the deal negotiated previously by Theresa May which failed to get Parliamentary approval.
- 4.3 Assuming the Withdrawal Agreement Bill is passed, as expected, focus will then turn to the longer-term relationship between the UK and the EU, with trade talks expected to begin early in 2020. The withdrawal agreement provides for a transition period until 31 December 2020. It is expected that the Bill will rule out an extension to this transition period, so there is a possibility that no trade deal will be in place when this period expires in December 2020.

5. COUNCIL PREPARATIONS

5.1 Horizon Scanning/Engagement with Governments, COSLA etc

Both the Cross Party European Group and the officers' Brexit Advisory Team have continued to meet regularly to consider the risks facing the Council and the city and to make any preparations possible.

Officers continue to participate actively in 'dial in' and face-to-face sessions organised by the UK and Scottish Governments, COSLA etc on a wide range of issues and ensure that any risks and/or opportunities flagging from other local authorities are assessed here.

Officers within the Council also continue to participate actively within their professional networks and liaise with other Councils/COSLA/ESEC/Scottish Cities Alliance etc on a regular basis.

Research published by the Scottish Government identified the areas of Scotland which are expected to be most vulnerable to the consequences of Brexit. This was based on levels of deprivation, workers in Brexiti-sensitive sectors, access to services, demographic issues, European funding and EU migration.

5.2 Citizens' Rights

We have continued to update the dedicated page on the Council's website which outlines the settled status scheme and signposts people to UK/Scottish Government information. We have made use of both Governments' campaigns and toolkits.

Social media channels such as Twitter, Facebook and LinkedIn have also been used, with regular posts providing key information and highlighting local events. We have supported several local events to raise awareness, including at Dundee & Angus College.

Staff in frontline services across the Council (including libraries and community centres), as well across our community planning partners, have been briefed and given a handout to support and signpost citizens. In addition, we have worked with Dundee and Angus Chamber of Commerce to promote the scheme to their members (as employers), used our Third Sector Interface and ensured welfare rights/advice services across the city are briefed. Elected members have been given information in case queries are raised via their surgeries, etc.

We reproduced Scottish and UK Government posters and produced a handout with key information/links which was distributed to places where it was felt there may be concentrations of EU nationals, such as student support services at the Universities and College, churches and shops selling European foods.

Dundee's Central Library is a location for the Assisted Digital Scheme for those needing help to make online applications, and we are also publicising the assistance available locally from the Citizens Advice Bureau.

The Children and Families Service and the Health and Social Care Partnership have been made aware of responsibilities for applications on behalf of looked after children and vulnerable adults.

Information on the number of applications to the settled status scheme is being monitored. Figures to date suggest that Dundee has the highest % of applications among the estimated number of EU nationals in its area, relative to other Scottish local authorities. The latest figures also show that no-one from Dundee has yet been refused settled or pre-settled status.

5.3 Local Economy/Businesses

We have encouraged local businesses to use the Scottish Enterprise Toolkit to help them prepare for Brexit, and promoted the Scottish Government's grant scheme to support business preparations. In addition to information on our website and social media posts, we have also worked with Dundee and Angus Chamber of Commerce and the Business Gateway on a survey of the preparedness of local businesses, to promote resources (including the grants available) and to publicise events.

The Chamber has recruited additional staff resources to support export documentation and also to assist in wider preparedness work.

In December 2018, the UK Government announced that it intended to introduce a new border and immigration system, following the end of the free movement of people as a result of the UK's exit from the EU. The future system will apply in the same way to all nationalities - EU and non-EU citizens alike - except where there are grounds to differentiate, such as in the context of a trade agreement or on the basis of risk. The revised immigration rules were presented in the Home Office White Paper '*The UK's future skills-based immigration system*' published in December 2018.

The White Paper suggested a minimum salary threshold of £30,000 for workers with intermediate skills, although concessions might be made in some circumstances, such as where there are skills shortages. This minimum salary threshold of £30,000 was met by concern from many stakeholders, including the Scottish Government and a wide range of sectors, who stated that this was above the average salary of workers in Scotland and could therefore lead to serious gaps in a wide range of roles, with no appropriately skilled staff to fill them.

According to figures collated by the Scottish Cities Alliance, 50% of all employees in Scotland's 7 cities earn less than £30,000, constraining the ability of employers in Scotland's cities to access the labour they require if a high threshold is applied to incoming international workers. Less than 50% of occupations in key sectors vital to Scottish cities earn less than £30,000. These include social care, construction, digital, travel and leisure.

Non-UK nationals play an important role in contributing to the economy of Dundee, and without availability of to this labour, our key sectors would not have access to the diverse talent pools that being able to recruit internationally enables. The key message from employers across Dundee is that levels of pay below the proposed threshold does not equate to low skill or low value. Indeed, without access to core staff who are paid less than the proposed threshold, then many of our highly innovative, technological companies would struggle to operate.

Dundee City Council has taken the opportunity to provide feedback to the Migration Advisory Committee on the proposed Salary Threshold and Points-Based System via a number of routes.

5.4 **Workforce**

We have continued to communicate with our workforce about EU settled status. This has been done through our One Dundee staff intranet, allstaff emails and the Chief Executive's monthly blog, and the information provided also encourages any EU national employees to share information with friends and relatives.

Employees have been encouraged to update their nationality details on MyView to allow direct communication with them.

Although the likely impact on service delivery if the number of EU citizens in our workforce was reduced has been assessed as low, and as manageable through workforce planning, the objective is to engage with and re-assure those affected that we want them and their families to stay, and to signpost them to information and support.

5.5 **Procurement**

The Procurement Team has been advised of new arrangements for inviting tenders and is prepared. All services have been asked to identify any concerns/issues they have, or any intelligence they receive from professional networks regarding:

- any particular sectors of the workforce, or the workforce of any private or third sector organisations they deal with, which may be affected by Brexit.
- any issues about supply chains and the cost and availability of any products or services we use.

5.6 **Regulatory Matters**

Officers are monitoring any discussions about regulations, potential changes to regulations, or opportunities to streamline or improve the regulatory environment after Brexit.

One issue that has come up is the likelihood that many more Export Health Certificates may have to be issued by Environmental Health Officers for Scottish businesses exporting animal-based products. Although this may not appear to be a major issue for Dundee, qualified EHOs may be asked to work in centralised hubs or might just be in short supply as demands on the service increase. COSLA has prepared a business case for additional resources to support any work required by local authorities in this area.

5.7 Funding

A detailed analysis of the projects and staffing supported by EU funding was carried out and is being reviewed again. Some funding streams are expected to run to 2022. Decisions on priorities may be required if the level of funding currently received from the EU is not replicated in the future.

We are engaging at all levels to ensure our needs and views are included in the development of future funding programmes. We have taken part in informal consultation, made submissions and will participate in any formal consultation on the proposed UK Shared Prosperity Fund once this is launched, now likely to be in 2020 following the Comprehensive Spending Review.

The Conservative Party manifesto said that the UK Shared Prosperity Fund will be used to tackle inequality and deprivation and, at a minimum, match the size of the EU Structural Funds in each nation of the UK.

The Scottish Government has launched a consultation on The Replacement Of European Structural Funds In Scotland Post EU-Exit. Scotland currently benefits from over £780 million of support, delivered through the European Regional Development Fund and European Social Fund, which helps to address economic and social disparities by investing in job creation, promoting a sustainable and inclusive economy, and funding projects to support the environment. The aim of the Scottish Government's consultation is to assist in the development of the Scottish approach to a potential replacement for European Structural Funds and to ensure that stakeholders are empowered to provide their input, experience and expertise. The closing date for responses is 12 February 2020. A proposed response to the consultation is set out in Appendix Two for members' consideration.

5.8 Other Financial Impacts

Assessment of current capital plan implications has been undertaken, including a review of scenarios of interest rate changes on plans and borrowing.

Cash flow monitoring will pick up any emerging issues and risk factors to be taken into account in medium/long term financial planning.

We are continuing to monitor the time spent on Brexit preparations and feed information into COSLA with a view to making cases for funding.

5.9 FareShare/Poverty Mitigation Fund

The Scottish Government entered into a partnership with FareShare to respond to the risk of increased food insecurity resulting from EU exit. This provides FareShare with funding to support community food organisations, through purchase of food and additional storage capacity, with distribution of this funding largely reflecting deprivation. The partnership with FareShare is intended to complement local responses and wider activity co-ordinated by local authorities, including approaches to alleviating poverty. FareShare will seek to signpost and refer households experiencing food insecurity to further advice and support on income maximisation, and the Council's Advice Services are engaged in this process.

The Scottish Government has also developed plans for a Poverty Mitigation Fund to be distributed to local authorities to direct towards people and communities in greatest need in the event of a no-deal Brexit.

5.10 Resilience

There is still a potential for a 'no deal' Brexit on 31 December 2020 if the UK and EU cannot agree a new trade deal during 2020.

The Council is linked to national, regional and local resilience planning arrangements for the possibility of a 'no deal' Brexit, and officers from relevant services have been registered to share information using the Resilience Direct system. The Local Authority Resilience Group is once again holding regular tele-conferences and contingency plans for the previous leave dates are being reviewed. As the UK Government was forced to publish its planning

assumptions documents (known as Operation Yellowhammer) in the lead up to the proposed 31 October 2019 leave date, much more detail is publicly available.

There is a tried and tested regional Public Communications Group (PCG) structure, which is chaired by Police Scotland and includes representatives of various bodies including Councils and emergency services. If required, the North of Scotland PCG will be stood up, either virtually or in person, to co-ordinate communications messaging. It is likely that Police Scotland and/or government would lead, with Councils and others sharing information to ensure consistency.

5.11 Communications

We continue to review and update our Brexit webpages, linking into key UK/Scottish Government information and communications. Information is available for citizens, businesses and also on what we are doing as a Council to prepare. Social media channels are being used regularly to highlight events and key information. Frontline services, including across the Dundee Partnership, have been briefed and given information to support citizens.

Once the situation with the withdrawal agreement is clarified during January, further communications will be planned for both citizens and businesses. Encouraging more citizens to apply for settled status, and encouraging businesses to prepare during the transition period (including promoting take-up of the Brexit support grant) will be priorities.

6. POLICY IMPLICATIONS

This report has been subject to an assessment of any impacts on Equality and Diversity, Fairness and Poverty, Environment and Corporate Risk. See details outlined at section 3.

7. CONSULTATIONS

The Council Management Team were consulted in the preparation of this report.

8. BACKGROUND PAPERS

None.

DAVID R MARTIN
CHIEF EXECUTIVE

DATE: 20 DECEMBER 2019

COMPARING BORIS JOHNSON'S AND THERESA MAY'S WITHDRAWAL DEALS

What has changed?

The Irish border

In Boris Johnson's withdrawal deal, a new protocol replaces the 'backstop' which was in Theresa May's deal designed to prevent a hard border between Northern Ireland and the Republic of Ireland. Key points in the latest withdrawal agreement include:

- **Customs** - the whole of the UK will leave the EU customs union, which means the UK will be able to strike trade deals with other countries in future. Legally there will be a customs border between Northern Ireland and the Republic of Ireland, but in practice goods will not be checked on that border. The actual checks will be on what is effectively a customs border between Great Britain and the island of Ireland, with goods being checked at "points of entry" in Northern Ireland. Taxes will only have to be paid on goods being moved from Great Britain to Northern Ireland if they are considered (by a joint committee of UK and EU representatives) "at risk" of being transported on to the Republic of Ireland. That joint committee will also agree limits on the help the government can give to Northern Irish farmers, based on what they currently receive from the EU's Common Agricultural Policy.
- **Regulations on goods** - Northern Ireland will keep to EU rules about things like manufacturing processes and labelling. That removes the need for checks at the border, because both NI and the Republic will be part of an "all-island regulatory zone", but it adds to the checks between Northern Ireland and the rest of the UK, which will not necessarily be sticking to EU rules.
- **Enforcing the rules** - this will be done by UK officials at "points of entry" into Northern Ireland, but the EU will have the right to have its own officials present and to ask UK authorities to take certain steps in individual cases.
- **Northern Ireland's say** - the Northern Ireland Assembly will have a vote on these new arrangements, four years after the end of the transition period. If the Assembly votes against the new arrangements, they would stop applying two years later, during which time the joint committee would make recommendations on what to do. If the Assembly accepts the continuing provisions by a simple majority, they will apply for another four years. If the deal has "cross-community support", they will apply for another eight years. If the Assembly is still not sitting, the UK Government will make alternative arrangements for a vote.
- **VAT** - EU law on VAT will apply in Northern Ireland, but only on goods, not services. Northern Ireland will be able to have different VAT rates from the rest of the UK. For example, if the UK decided to reduce the VAT on household fuel to zero, Northern Ireland would still have to keep it at 5%, the EU minimum.

Future UK/EU relations

The text of the political declaration on future relationships between the UK and EU, which is not legally binding, has also been revised by UK/EU negotiators as part of Boris Johnson's deal.

It says that both sides will work towards a Free Trade Agreement and a high-level meeting will take place in June 2020 to see how that work is going. The text also contains a new paragraph on the so-called "level playing field" - the degree to which the UK will agree to stick closely to EU regulations in the future. It says that both sides will keep the same high standards on state aid, competition, social and employment standards, the environment, climate change, and "relevant tax matters". But the references to a "level playing field" were removed from the legally binding withdrawal agreement and moved the political declaration, which is not legally binding.

What has not changed?

Much of Theresa May's original Brexit deal will remain. Some of the key areas are:

- **Transition** – there will be a transition period, during which all of the current rules stay the same allowing the UK and the EU to negotiate their future relationship. The transition period is due to last until the end of December 2020. The UK will need to abide by EU rules and pay into the EU budget, but will lose membership of its institutions. The transition period can be extended, but only for a period of one or two years, and both the UK and EU must agree to any extension. The Prime Minister has indicated that the Withdrawal Agreement Bill will include a clause ruling out any such extension.
- **Citizens' rights** - UK citizens in the EU, and EU citizens in the UK, will retain their residency and social security rights after Brexit. Freedom of movement rules will continue to apply during transition. This means that UK nationals will be able to live and work in EU countries (and EU nationals will be able to live and work in the UK) during this period. Anyone who remains in the same EU country for five years will be allowed to apply for permanent residence.
- **Money** - The UK will have to settle its financial obligations to the EU. There is no precise figure but the biggest part of this "divorce bill" will be the UK contributions to the 2019 and 2020 EU budgets. As Brexit was delayed, some of that money has already been paid as part of the UK's normal membership contributions. The Office for Budget Responsibility estimates that the bill is now around £33bn (down from £39bn).

SCOTTISH GOVERNMENT CONSULTATION ON THE REPLACEMENT OF EUROPEAN STRUCTURAL FUNDS IN SCOTLAND POST EU-EXIT

PROPOSED RESPONSE BY DUNDEE CITY COUNCIL

The purpose of the consultation is to clarify:

- the aims and objectives of post EU Exit funding in Scotland;
- how to maximise its added value;
- the extent to which it should be aligned with Scottish, UK and EU policy priorities;
- whether and how it should be concentrated thematically or geographically;
- the appropriate arrangements for monitoring and evaluation;
- the most effective and efficient approach to governance and partnership.

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?

Current and previous EU Structural and Investment Funds (ESIF) have supported competitiveness, employability, jobs and sustainable growth, and the replacement funding should adhere to these principles, which support a balanced economy. The aim of the funding should be to reduce economic inequalities between communities in Scotland, while also providing opportunities for economic growth, as is the case for existing funding opportunities.

Any replacement for EU Structural Funds should retain the primary focus of economic development and convergence, otherwise it does not replace the funding being lost. The replacement funding should primarily seek to replicate the high level objectives of the current EU Structural Funds, which provide demonstrable added-value, and do not duplicate existing local or national funding.

Dundee is the economic centre of the Tay Cities Region, with real issues related to inequality and poverty (such as an unemployment rate of 6.5% compared to the Scottish average of 4.5%) but also with real opportunities for future growth. These needs and opportunities should be considered as key to the determination of future funding.

Priorities need to be set in conjunction with local government. There is scope to expand and improve upon existing objectives and priorities. For example, EU funding programmes have progressively moved away from being able to invest in physical regeneration investments, and is now quite tightly restricted to what it can fund in terms of infrastructure, being mostly limited to low carbon and green projects. This could be broadened to include other infrastructure projects, if not covered by other funding streams. The 2007-13 ESIF programme period had a rural and an urban priority, and the reinstatement of this would be welcome to help to bring geographical focus and to recognise the differing needs and opportunities between urban and rural areas. Other activities such as promotion and sectoral support have not been possible in recent programmes either. For example, Dundee City Council used to receive ERDF to underpin BioDundee, a partnership which builds the strength of the life sciences and healthcare sectors in Dundee and the wider Tayside region. The loss of this ERDF has impacted on the level and range of support activities that BioDundee is able to deliver.

The ESF primarily seeks to reduce economic inequalities by helping people to learn new skills, get back into employment, and tackle debt problems. The people supported by the ESF are often those furthest from the job market. Between 1 July 2015 and 31st March 2018 the ESF employability pipeline supported 1,991 people in Dundee with 456 achieving qualification and 586 entering a positive destination (employment, self-employment, further education or training) with support ongoing. For the period 2014-22, Dundee City Council was awarded a grant of approximately £3.9m. The future replacement framework could extend this scope to also integrate labour market needs, facilitating career transitions, upskilling (addressing people who are under-employed or struggling to move up the career ladder) which in turn would ensure more vacancies in entry level/lower skilled employment), promoting professional mobility, and reskilling opportunities. The replacement framework could also contribute to emerging and growth sectors through the improvement of education and training necessary for the obtainment of new skills and qualifications and by providing bespoke higher level skills programmes to engage individuals and/or companies in upskilling in key sectors such as digital/tech. Such schemes should be made available to those who may already be in the labour market but in need of retraining, as well as those who are not in employment.

Support for local businesses, encouragement of new business development and inward investment are also needed to ensure that the city can thrive. EU funding secured by Dundee City Council in the 2014-2020 programme to address issues such as business development, employability, smart cities programmes such as smart travel, waste and social innovation is circa £6.9 million, and it is vital that this level of support continues.

The ERDF offers opportunities for economic growth, and supporting business and encouraging innovation is at the heart of this investment. The Strategic Interventions in the 2014-2020 programme which have been of particular benefit to Dundee have been Business Competitiveness, the Low Carbon Travel and Transport Programme, Scotland's 8th City - the Smart City, and the Low Carbon Infrastructure Transition Programme.

Since 2017 over 300 businesses have received support across Tayside via the Business Competitiveness programme to support additional business gateway activity. This has included the introduction of additional business advisors, expert help (providing consultants to support SMEs with key issues such as marketing, e-business, and sustainability), the introduction of an international trade advisor, dedicated HR support and the development of an accelerator programme to support potential growth SMEs. The grant received from Business Gateway was £713,000.

The Low Carbon Travel and Transport Programme supported the installation of Electric Vehicle charging points, powered by solar panels, on the roofs of three multi-storey car parks in Dundee, with a grant of £1m and the planned development of a city centre active travel hub and extension of the city cycle path with a grant of £800,000.

Funding from the Low Carbon Infrastructure Transition Programme enabled the Regional Performance Centre for Sport in Dundee to develop and integrate a range of low and zero carbon solutions to provide heat, cooling and power energy hub. This includes the installation of a ground source heat pump and photovoltaic panels. The Council received a grant of £2.9m.

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

In order that the funding be used most effectively to address spatial inequalities between areas and communities in Scotland, the inequalities must be identified and defined. Funding allocations should not rely solely on levels of GDP at NUTS 2 level as the current ESIF does, as this is insufficient and does not tell the whole story. While it provides an indication of economic activity within an area, it is not an indicator of wealth nor does it measure regional poverty. Through the prism of GDP measurements, the NUTS 2 regions of Eastern Scotland are classed as well-developed. However, applying other measurements alongside GDP, such as the Scottish Indicator of Multiple Deprivation (SIMD) makes the case for a higher, more targeted level of financial intervention. Employing this data will ensure no community in need gets left behind.

Local authorities should be involved in the development of the funding model or at least made aware of the model being used - this hasn't always been the case in other funding allocations e.g. the Coastal Communities Fund. Focusing on disparities in Scotland alone (rather than across the European Union) should enable a more balanced approach to the allocation of funding where needed. This should also look at the type of funding on offer ESF, ERDF, sectors etc. and should not be a blanket yes or no across all strands.

The Joseph Rowntree Foundation report on future structural funding suggested this should focus on increasing levels of employment and pay in the areas where these were lowest, on the basis of which Dundee was identified as one of the top priority areas for support, not only within Scotland but also across the UK.

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

The high-level overarching priorities could be set at the Scottish or UK level, but should be set in consultation with local government. A partnership approach in developing the fund and setting the priorities would ensure that priority sectors, industries and need at the local level would be supported. Local authorities are in the best position to make decisions on local growth, based on the established and historic relationships fostered with local communities, the city region and industry.

We also recommend that smaller geographical areas than the four areas in Scotland currently used in ESIF be introduced to provide for more effective targeting of funds.

ALIGNMENT WITH SCOTTISH POLICY AND OTHER FUNDING STREAMS

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

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

Any replacement funding frameworks should adhere to the principle of additionality, which in turn will avoid duplication or conflict within and between local authorities. This being said, there are domestic funds which complement EU funding programmes. For example, the Fair Start Scotland programme has similar priorities to the ESF. However, ESF extends to potential participants who may not be eligible through domestic employment programmes. Furthermore, ESF recognises a further range of milestones than Fair Start Scotland, whose main outcome is acquiring employment of 16 hours or more for those **further** from the employment market. ESF also recognises progression and achievements made by those **furthest** from the employment market such as gaining qualifications or entering into further education or training. In order to extend the scope even further, there should be more flexibility in the targeting of participants, and more flexibility to be creative around job creation (e.g. being less prescriptive about employer eligibility for wage subsidies, Modern Apprentices, etc). This should also address the potential need to support the development of higher level skills, particularly if EU migration decreases.

In a test of change in the shared ambition to refresh Scotland's employability system, the Scottish Government are proposing that a range of funds currently awarded and managed nationally will be devolved to Local Authorities, on behalf of their respective Local Employability Partnerships, as part of a new local employability delivery model. The terms of this are captured in the Scottish and Local Government Partnership Agreement under *No One Left Behind* and the work being taken forward by a Scottish and Local Government Alignment Group.

This is being done in a phased approach where the initial two (Activity Agreement and the Scottish Employer Recruitment Incentive) of seven funds were devolved in April 2019. The remaining funds (Employability Funds, Community Jobs Scotland, etc) are due to be devolved prior to the end of Fair Start Scotland, giving way to the possibility that Fair Start Scotland may follow the previous seven funds.

The funding arrangements will be managed collaboratively between Scottish Government and Local Government and will evolve to include other partners in the planning and delivery of local services. The introduction of the first phase of this new model from 2019/2020 will enable Local Authorities and partners to apply more flexibility to existing employability funds to ensure they are fully reflective of local area and user needs. This presents an opportunity for Local Authorities to: better allocate funds from a national source in a way that aligns and integrates the local employability services; and, identify gaps and enhance the use of ESF while clearly demonstrating the additionality and added value. The same benefits are there to be gained by the replacement of ESIF in Scotland.

Utilising funding for business support, building on the role of Business Gateway, is also a useful mechanism for supporting growth in the local economy.

We also need to consider what is classified as an outcome - currently it is seven hours of business support - when a shorter intervention can actually have just as big an impact.

ALIGNMENT WITH UK AND EU POLICY

The UK Government has said that the Shared Prosperity Fund 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 five 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?

There is an opportunity to be more closely aligned with Scottish Government policy drivers; Inclusive Growth, integrated public services and alignment with City Deals. Also, through the delegation of the welfare system, there is an opportunity for Scotland to achieve better alignment and wrap around with the national Fair Start Programme. There is also the opportunity for flexibility to address local and regional variations and needs.

Regarding the UK Industrial Strategy, by focusing too closely on the more specific content of the strategy we may stray from the core needs of Scotland as a whole and local economies more generally.

Utilising the headline themes will enable us to address key challenges and opportunities across the city and Scotland: ideas, people, infrastructure, business environment, places and grand challenges. The idea of grand challenges should also be considered to allow the fund to be flexible to future opportunities on a timely basis without needing to re-write the programme.

However, here is a need to ensure that any support meets local needs and strategies as well as national approaches.

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

A degree of alignment with EU Cohesion Policy would allow for the UK to more easily integrate with key EU funding programmes such as Erasmus+, Interreg and Horizon Europe. The five themes for Cohesion Policy 2021-2027 are: A Smarter Europe; A Greener, Carbon Free Europe; A Connected Europe; A More Social Europe; and A Europe Closer to Citizens, and these themes are mirrored in the Scottish Government's Programme for Government 2019-2020, which has well-being and securing a positive future at its heart.

The themes of the Programme for Government are: Ending Scotland's contribution to climate change; A successful, fair and green economy; Improving outcomes through our public services; and Communities where everyone is valued, protected and respected. These themes are complementary to those of EU strategies and Cohesion Policy, past, present and future. Maintaining alignment across these themes would support all levels of government in achieving their objectives.

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?

Identifying measurable and realistic targets from the outset, focused on the key priorities, will be crucial. We have struggled in the past with a lack of clarity surrounding what constitutes an outcome in EU programmes e.g. there has been a long running debate about whether support for a business is three hours or seven hours. The actual activity should be being recorded not just how long the support took, as a three hour intervention can sometimes have more of an impact than a seven hour intervention.

In order to introduce a replacement financial framework which complements and aligns with existing initiatives, the monitoring and evaluation could mirror the outputs/outcomes/ KPIs/measurements already in place for the National Performance Framework.

It is however difficult to identify appropriate methods of evaluation without a full understanding of the programme content.

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

This type of funding could have an impact across a number of the national outcomes set out in the National Performance Framework, and in particular we would like to see the following key areas included:

- **Education and Skills** - focus on post school participation, skills development, addressing skill shortages, but not just the unemployed and including the under-employed and those needing to move out of low wage/entry levels jobs
- **Fair Work and Business** - focus on entrepreneurship, business start-up, business growth, innovation, economic participation, inclusive growth
- **Economy** - focus on exports, productivity, superfast broadband/digital infrastructure, R&D, economic growth, entrepreneurial activity etc
- **Poverty** - focus on skills and work, financial inclusion, barriers to employment
- **Communities** - focus on place and quality of place
- **Environment** - focus on sustainable and affordable energy, transport, industry/innovation/ infrastructure, zero waste and the circular economy

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?

Regarding reporting, there are different IT systems used within ESIF, including for ESF/ERDF (EUMIS), LEADER (LARCS) and EMFF, and the key transnational programmes with which local authorities engage, namely INTERREG and Erasmus+, again have different systems. In our experience, some of these systems work much better than others. Experiences with EUMIS in particular have not been favourable. Differing systems also cause confusion for support staff within local authorities, who do not always understand the difference across or within EU programmes.

In order to improve the evaluation process, an enhanced harmonised IT system should be designed, thoroughly road-tested and in place by the conclusion of the ESIF and for the start date of the replacement funding framework. The European Commission has acknowledged the need to achieve results “in a simple, fast, flexible and cost-effective manner” and so for its next budget period 2021-2027, it will seek to adopt a single rule book and harmonised reporting systems for its various funding programmes. Assuming that UK organisations will still be able to participate in certain transnational funding programmes, we suggest that the Scottish Government maintain close links with the European Commission as it designs its future processes for reporting, to ensure that the domestic and transnational systems do not greatly diverge, cause conflict or add complexity.

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 multi-annual framework of ESIF which extends beyond parliamentary terms remains crucial to enable real structural change to be planned and programmed. This allows for local authorities to design, develop and deliver high-quality projects for the benefit of people and business.

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

An Independent Administrative Body (IAB) is critical for the fund. The Managing Authority cannot also be the auditing/verification body as well as the assessing body etc. In Scotland the 2007-2013 programme period had ESEP Ltd as an IAB, and this created a separation between the decision making body and the operational administrative body. In case of any dispute the Scottish Government was then able to take an independent view on the matters. This separation of duties is very important in order to ensure transparency and to avoid conflict of interest.

The body must also be able to give advice and guidance on project development and delivery, much like ESEP used to do and the current LEADER programmes does. To do this effectively, they must be a stand-alone body able to give advice freely.

There is currently limited transparency in the decision making process and this needs to be addressed. The utilisation of key stakeholders as independent decision makers with papers published and produced regularly.

The current Strategic Intervention (SI) model has proven to be ineffective. The cluttered landscape and a reduction in transparency across the programme has meant people have to have a wide knowledge/understanding of who is delivering what SI, know where to look for deadlines and how to apply etc. Other issues arising as a result of multiple SI leads is that information was not circulated in the same way to everyone with each lead having their own mailing lists and engaging with different people in organisations. This also led to issues within larger organisations when applications were made by multiple departments/officers.

Going further back, in the 1990s, Scotland used an innovative partnership-centred model for delivering ESIF, which was driven by local authorities, colleges and other relevant stakeholders. The Scottish Office had the responsibility for claims and payments. This system also worked well.

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

The current programme delivery model for ERDF should not be replicated in any future programmes. The current model identifies a range of key themes/interventions, and we agree that this theme based approach should continue, with elements of funding being allocated to themes. However, each theme is delivered by a Strategic Intervention lead which varies from local authority level to national bodies such as Transport Scotland or SNH. Each Strategic Intervention lead has developed their own application forms and assessment processes meaning that applicants who might be applying to more than one theme have to manage multiple processes and understand the background to each of these themes. In previous programmes, all themes were managed by the Independent Administrative Body (IAB) and this led to a joined up, cohesive approach, with one application form and set of guidelines for all theme. This is much easier for applicants to access and to understand.

We would not support the introduction of a UK-wide challenge fund model as this would distort the objectives of the replacement funding, as it could lead to projects being approved on the availability of match-funding or the scoring of a particular application, rather than the local/regional need.

An agreed formula should be the basis for the funding allocated to local government. The future funding framework should encourage cooperation across regions, not competition, and funding should be awarded based on local demand, which in turn would support local authorities in delivering vital employability services and for initiatives which tackle poverty and social exclusion.

A challenge fund approach could be the appropriate model for projects which seek to introduce innovative technological solutions, which is the case for the current ERDF low-carbon strands. In terms of funding more traditional and essential objectives such as addressing poverty and social exclusion, direct allocation of funding is more appropriate, as is the case with the current ESF programme. We recommend retaining as many options as possible in terms of funding models (procurement/challenge fund/flat rate model of Direct Staff/etc) with the ability to select the most appropriate for the associated project, whether it be revenue or capital.

Furthermore, even though it has not been without its difficulties, positives were gained through the simplified cost modes introduced for the 2014/2020 ESIF Programme which responded to many administrative and audit difficulties faced during its predecessor. For example, the Flat Rate Methodology of Direct Staff Costs plus a percentage has greatly reduced the financial administrative and audit burden placed upon Lead Partners and Delivery Agents. However, this has been counterbalanced by an increased administrative and audit burden placed upon the achievement of Milestones, Outputs and Results.

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

This will depend on how the programme is delivered - who is managing the funds, what support they can offer, and what experience they have of managing funding (this was minimal during the current programme for some of the SI leads who had limited experience of managing EU funding themselves). Currently most ESIF funding is directed towards larger organisations - with previous minimum grant thresholds having been set. If this is to be open to a wider range of organisations then there might well be a need for support/capacity building. It will also depend on the monitoring requirements of the programme. If they are less onerous than current ESIF criteria or EUMIS monitoring system then there will be less need to "train" people how to use the systems/processes. A reduction in bureaucracy rather than capacity-building would open the doors to smaller entities as only large organisations can provide the corporate resources required to administer and manage ESIF SIs and Operations.

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

From the current ESIF programme, it is clear that the Lead Partner model has not been successful, and moving away from this system for the replacement framework would already be an immediate head start. Too many of the Strategic Interventions are managed by national organisations and there is limited local control. This is not the optimal approach to addressing regional issues, but instead it gives control to national bodies with a focus on national issues. The 2007-2013 programme had priority areas, all managed by the Managing Authority, which were not aligned to a national body. This allowed for more flexibility to take account of regional variances. Furthermore, the lead partner system adds a further level of bureaucracy, and the replacement framework offers an opportunity for a more, efficient, streamlined process. Also, in our experience during the 2014-20 programme, we found that lead partners across the strategic interventions varied in their approach and effectiveness in highlighting opportunities and providing information on processes. Each set their own call timetable and assessment procedures, leading to a confusing landscape. Despite the best efforts of local authority officers, communication with lead partners could be at times poor. Transparency of approach was also reduced as a result, with limited awareness of the decision making process and limited involvement at a local level in that process. Programmes prior to the 2014-2020 programme engaged advisory groups to assess and discuss all applications, minutes of meetings were published regularly and the process felt more transparent and fair. The amount of transparency has decreased considerably in recent years. In previous programmes, there was a lot more peer review in the application process and in decision making and unfortunately that is no longer the case. More transparency and clearer rules are key.

Another issue is the need for match funding. Local authorities can be allocated generous sums of funding but if there is an unrealistic need for match funding, and this is a mandatory element of being able to deliver projects, then these projects will not be delivered. Given the current financial constraints on local authorities, this can be a barrier to addressing local needs and can limit innovative approaches being implemented.