

**SUBMISSION**

**All-Party Parliamentary Group on Post-Brexit Funding**

**for Nations, Regions and Local Areas**

**Overview**

The Convention of Scottish Local Authorities (COSLA) is the national and international voice of the 32 Scottish Councils. One of its key areas of international work over the years had been the influencing and negotiation at domestic and EU levels of a range of EU funds, notably the European Structural and Investment Funds, that have been helping in the developing of Scottish communities over decades.

Throughout the Brexit negotiation process we have been repeatedly urging the Scottish, UK and EU bodies responsible for managing EU funds the need to ensure that there is funding and legal certainty to ensure the closure of the current programmes and that preparations for the replacement funding schemes are start with sufficient time as to be in place.

**Key principles:**

* Central/Local Partnership
* Funding certainty extending beyond the period of a single parliamentary term.
* Subsidiarity: most decisions on EU replacement funds to be taken in Scotland at least in the same degree as it is currently the case with the Structural Funds.
* Focused Medium to Long Term societal/international goals
* Consolidates the scope and resources currently disbursed by the several existing EU funds (the single pot approach).
* Mainstreaming reporting and audit into existing domestic arrangements

Although the attention is focused on what might be the content of the UK Shared Prosperity Fund proposals later this year, Brexit provides an opportunity to take a holistic review to the way that place-based local sustainable economic development (including replacement to EU Rural Development and Maritime funding) is carried across different governmental bodies and across different tiers of government. In so doing the EU Structural Funds had started a journey towards bringing together different funding streams and integrating them into a multi-fund single pot. This enticed different ministries, directorates, local authorities and delivery bodies to work together thereby reducing silos, gaps and inconsistencies in delivery. Though this direction of travel EU funds towards more integration has not been without its limitations we should be watchful over the risk that post Brexit replacement funds in the UK result in the work of DEFRA, BEIS, MHCLG, HMT and the corresponding Directorates of the Devolved Administrations becomes less joined up that they currently are thanks to the structure provided by the EU fund regulations.

**Detail**

The EU Structural and Investment Funds (ESIF) is a set of 7 year-long programmes managed by the European Structural Fund Division (European Social Fund, European Regional Development Fund), the Agriculture and Rural Development Division (EAFRD) and Marine Scotland (EMFF). They together bring over £1,8bn of EU funds.

The UK being a net contributor to the EU budget this made a form of a rebate from the UK annual block grant to the EU. With Brexit, this transfer disappears. Unlike the 111/153 EU returned powers this funding is entirely discretional so it could disappear upon Withdrawal.

However, these funds, and have never been, a matter of mere financial transfer. If it were just like that it have is far easier that the EU made them by way of block grants (like the Scottish or LG annual grants), earmarked transfers (such as pre-Concordat ones or, more recently teachers numbers monies) or tax rebates (such as the City Deals).

Instead the key element of the ESIF is its governance and central-local partnership nature, providing funding certainty beyond the term of a parliamentary mandate or two consecutive spending review cycles.

COSLA successfully negotiated with the Scottish Government that 1/3 of funding and spend of the so-called strategic interventions (thematic funding partnerships) would be le led by the Local Government sector (LAs, BG, Business Loans Scotland, CPPs)

This strategic, pluriannual and comprehensive territorial focus will be lost upon closure of the existing programmes end 2020 (residual spend to be made by end 2023).

**Opportunities**

There is merit in consider the replacement of ESIF by (a) home grown funding scheme that is able to ensure that that the whole public sector is able to focus on a defined and narrow range of strategic objectives, be that of national public interest (e.g. increase skills or employability, entrepreneurship) or to meet international commitments: the UN/EU Climate and Energy goals, OECD policy commitments, or more broadly and comprehensively the UN Sustainable Development Goals (SDGs), that both the Scottish and UK Governments have committed to deliver and report towards.

While the Treasury and Scottish ministers (and more formally the Withdrawal Agreement with the EU) have guaranteed that current EU allocations running until 2020 (in practice 2022) will be honoured, there has been precious little progress in scoping the post withdrawal UK and Scottish polices to replace these EU programmes. This has also been reaffirmed by the DExEU Technical note in event of a no deal.

The UK Governments already formally communicated that it is intent in replacing ESIF by the development of what may be called the ‘UK Shared Prosperity Fund’ to replace existing EU funding programmes.  We should be able to build on the good work of Local Government with Devolved and UK Ministries (BEIS, DEFRA, MHCLG) to draft a UK Partnership Agreement as a basis to develop these new frameworks.

This would both build on the good practice and know how accumulated in designing and delivering EU frameworks over several decades, and also acknowledge that the comparatively large UK local authorities have their own significant budgetary and regulatory weight, particularly in providing the right business climate for SMEs, who collectively are the largest employers in the country.  Any new UK place-based policy and funding arrangements needs to be developed with local government to ensure they are sufficiently place-specific and draw from all the territorial capital (resources, infrastructure, know how) of a given area.

Any replacement of ESIF should focus strategic long term central-local partnership that is genuine cross-party and whose objectives can be supported and taken over by whoever is in power at either local and Scottish level. In this respect the rationale of the SOAs, (now LOIPs) is an useful basis to consider (and finance) this central/local multi-annual territorial approach.

**Lessons learned**

This single pot would have a strategic nature so that central and local authorities would agree to work towards, and setting shared accountability on, shared outcomes to be reached in a set date. It will also require to build upon the interdepartmental cooperation forced upon them by last ESIF period.

There are also lessons to be learned in terms of burden imposed by SG to local government-led interventions, particularly for those Councils acting as lead partners. While some of that was imposed by EU rules, a good deal was gold-plating as a reflection of SG risk aversion to EU auditors.

Equally the current model of Strategic Interventions lack a sufficiently robust legal basis, which generates uncertainty (financial and legal) upon Councils, limit the Council’s own accountability of their own funds disbursed as match-funding to deliver these Interventions and had a gap of political governance. It is well known that the Highland and Islands Councils and the South of Scotland authorities wanted to have their own programme (or at least a form of sub-delegation known as Integrated Territorial Investments), or sub programme, one that their elected members could take decisions and scrutinise spend.

At the same time Local Authorities (and thus the elected members having to be accountable for these spend to their local electorate) did not get sufficient recognition by SG and Scottish Ministers in the launch and communication of the result of these strategic interventions that they, rather than the SG, were leading.

At the same time, and particularly for rural areas, the development of these new frameworks should be used to progress existing community empowerment agenda that is advocated by LEADER/CLLD and the existing and forthcoming Scottish Legislation while doing away with some of the constrains currently imposed by EU rules as regards to embedding LEADER/LAG in the wider Local Authority local economic and community planning policies.

Simplification this new funding instrument would be able to do away with EU imposed earmarks (such as compulsory earmark of 20% for research, or the expectation of spending *only* 5% of rural funds in village renewal and economic diversification). This is both an opportunity as it is a risk particularly for the above mentioned 5% earmark to LEADER, as this came from Brussels and there might be pressure from the farming sector to scrap altogether any earmark community empowerment and rural diversification away from farming altogether.

Equally there would not need to replicate the same match-funding rates currently set by EU rules, and in some cases, even do away with those match funding obligations altogether.

The principle of additionality should be retained. This means that spending priorities should focus on medium term priorities (e.g. employability, broadband) that need to be locally determined but refer to wider national and international priorities.  For that matter allocations for this funding replacement should be left outside the Barnett formula.

**Way forward**

We should build on the good practice and know how accumulated in designing and delivering EU funding schemes over several decades, and also acknowledge that the large UK local authorities have their own significant budgetary and regulatory weight, particularly in providing the right business climate for SMEs, who collectively are the largest employers in the country.  Any new UK place-based policy and funding arrangements needs to be developed with local government to ensure they are sufficiently place-specific and draw from all the territorial capital (resources, infrastructure, know how) of a given area.

There is a clear agreement across Scottish Local Authorities, the Scottish Government and other Scottish bodies that decisions on priority and management of any UK replacement funding should be made in Scotland – at least at the same degree that it is currently the case for the EU Structural Funds.

COSLA welcomes the recent Commission proposal on European Territorial Cooperation (INTERREG) that will make UK Local Authorities and other bodies eligible to continue participating in EU cooperation projects with their counterparts across the North Sea and the EU as a whole in the same way that non-EU Member States such as Iceland, Norway or Morocco currently do. This is something that we have been consistently arguing with government and at EU level including with EU negotiator Mr Barnier. This will require that the UK Treasury would finance the part of the UK participating bodies but, crucially, this would not amount to any transfer to and from the EU: it will be UK monies being spent by UK bodies in carrying out pan European cooperation projects.

While the “Chequers” White Paper and the UK Memorandum on the draft INTERREG Regulation makes an opening towards continued participation of the UK in this programmes the language remains clearly more ambiguous than the clear commitments from the UK in a number of programmes such as Horizon Europe research funding, which ironically will be considerably more onerous for the UK budget and will involve transfers of UK funds to the EU Budget in the hope that some of that would be recovered by UK participants by way of winning competitive EU-UK wide bids. COSLA demands an unambiguous commitment from the UK in continued participation in European Territorial Cooperation.

Last but not least any changes in delivery of funding need to be closely matched with simplification of the state aid regime. While the “Chequers” Brexit White Paper had made abundantly clear that broadly the state aid regime would remain aligned with that of the EU as to facilitate an ambitious UK-EU trade deal there are opportunities to simplify the maze of multi-layered and in some cases overlapping guidelines of de Minimis, Services of General Economic Interest, Regional Aid Guidelines , General Block Exemption Guidelines and sector specific ones for Broadband or Regional Airports.

In this respect the recent announcement that the Competition and Markets Authority (CMA) has been entrusting with replacing the Commission role in policing the state aid regime raises some questions. At present, prior to unveiling new State Aid Guidelines the Commission consults formally Member States and, in some cases, interested parties such as Local Authorities.

Given the asymmetric nature of devolution of the UK (where the UK government act as “regional” government in England on top of its UK-wide remit) and the economic regional development discrepancies across the UK (routinely identified by EUROSTAT as the widest in the EU) any decision on new state aid rules that is not developed with sufficient ownership of the devolved administrations and local governments across the UK is likely to be contested, the more so as the volume of aid granted by public authorities under current EU state aid rules is much more significant that any grant coming from the EU at the moment.

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