Written evidence submitted by the Scottish Islands Federation (SPF0008)

Response to the questions from the Scottish Affairs Committee in Westminster re the SPF.

What are the implications of the financial assistance powers in the Internal Market Bill and the announcements made by the UK Government in the 2020 Spending Review for the delivery of the Shared Prosperity Fund in Scotland?

The **Scottish Islands Federation** brings together islanders from the 93 inhabited islands of Scotland to share ideas and innovations, develop opportunities and give a voice to their common challenges.

Treasured for their unique environment, culture, produce and their draw for tourism, the islands contribute significantly to Scotland's economy and profile. Islands also boast significant natural resources and increasingly the people that live there are pioneering new ways to harness these through community ownership, enterprise and new technology.

Yet the islands are hampered in their efforts by island overcosts of almost 40%, a lower standard of living and the threat of an ageing demography combined with the permanent barriers of their geography and remoteness from markets.

It is for these reasons, that together with the Highland region, the islands have been considered a less favoured area and given transitional status in the EU Territorial Cohesion policy. This has translated in a higher rate of intervention for EU structural funds the aims of which are to reduce disparities and align living standards across the various European regions. With £1.5 billion invested up to now, the Structural Funds have been a significant driver in transforming the economic and social wellbeing of the Highlands and Islands region; in these respects, EU Policies have acted as a proxy for a UK regional policy, which, post Brexit, still remains undefined.

1/ Implication of the Finance assistance powers in the Internal Market Bill for the delivery of the Shared Prosperity fund in Scotland.

Part 6 of the Internal Market Bill gives UK Ministers a new general power to spend directly in devolved areas, without the oversight and consent of the Scottish Parliament and Ministers.

In particular, the Bill states that the UK Government can provide assistance for economic development infrastructure, culture, sport, education and training directly in any part of the UK, even though spending in these areas has been done through existing financial mechanisms such as the Barnett formula in Scotland.

- **No clear framework**

The Bill provides very little detail about how this new power would interact with existing systems of territorial finance and the frameworks that underpin them such as the Programme for Government in Scotland.

The Explanatory Notes to the Bill suggest that the general spending power creates ‘a means for the UK Government to provide funding across a range of largely devolved areas that would sit alongside any funding provided by the Scottish Government in those areas’.

UK funding would be directed to ‘local authorities, sectoral organisations, community groups, educational institutions and other bodies and persons’.

The Bill states that the UK Government would be enabled to ‘invest our money nationwide to invest in our COVID recovery and other domestic priorities including any direct replacements to EU programmes’

There is no clarity however, on what constitutes “domestic priorities” in the Bill or in UK government policy. This lack of clarity leads to serious concerns for the Scottish Islands Federation about the goals and objectives of direct intervention by the UK government and whether they would address the issues pertinent to the islands.

- **No coherent Territorial Cohesion policy in place**

There is no indication that a framework for a coherent territorial cohesion for the UK post Brexit has been put in place.

In particular, there is no clarity on whether the particular situation of islands as territories affected by permanent geographical constraints has been recognised by the UK Government, whereas this was clearly recognised in Art. 174 of the Lisbon Treaty or TFEU.

In Scotland, it has been made clear that the devolved government has an existing framework for spending in these area that is aligned on the aims of the overall themes of the Scottish National Programme which are:

- Improving Places
- Tackling Poverty
- Skilled People
- Business and Job Growth

We believe that financial assistance in the form of the Shared Prosperity Fund needs to be allocated on the basis of this economic and social development framework already in place in Scotland.

Much consultation and work have already been carried out to identify the mechanism that would ensure the Shared Prosperity fund is distributed in Scotland on a transparent, needs-based regional allocation model, which is based on regional partnerships.

The Scottish model proposes that Regional Partnerships will be free to allocate money as they wish in their regions, guided by principles which align their plans with Scottish national priorities that support place-based and community wealth building approaches.

Nowhere does the Scottish Islands Federation see in the Bill the principles of accountability and additionality combined with the complementarity with action on Covid, that we have seen in the proposals from the Scottish Government.

- **Loss of autonomy and top down imposition**

It was presumed that the Shared Prosperity Fund would simply replicate the way ESIF are allocated with a simplified bureaucracy as the complexity of having to deal with a structure capable of accommodating 28 countries would be removed.

But the reference to EU programmes suggests that Scotland would lose its autonomy over the allocation of structural funds once these are replaced by UK programme funding, such as the Shared Prosperity Fund.

Spending on infrastructure, economic development and educational projects, for example, are likely to interact with other areas of devolved competence, such as planning, environmental impact assessment, or curriculum development, and we cannot see how this could be done without close cooperation with Scotland and its regional authorities.

Such contradictions clearly shows how the preparation of the Bill was a top-down process, with little engagement or consultation with the Scottish government, despite its constitutional significance for the functioning of devolution.

This is despite the Island Local Authorities in Scotland unanimously asking that funding mechanisms revert back to giving more decision making powers to the regions themselves and therefore more flexibility, as the centralisation process that occurred during the 2014-20 period made fund allocation cumbersome, unwieldy and counterproductive.

Details of the fund were supposed to be sketched out and a consultation to take place by autumn 2018 for the fund to be in place by 2020.None of this was done and the fund is still not in place. There is now a huge worry that at 2021 there will be a funding hiatus, with nothing in place to ensure a smooth transition.

- **Loss of support for the most remote and vulnerable territories**

We do not believe that the UK government has a sufficiently detailed understanding of the needs of the various territories in the UK and especially its remote and rural parts such as the islands of Scotland, to enable funding to be distributed equitably and fairly under its present proposals.

Over the years, a whole network of relationships has been established between the Scottish Government and the Local Authorities over the distribution of these funds, which have provided between 10 and 25 per cent of the authorities' economic development and employability spend. These relationships and the knowledge they represent will be lost, and it is not clear how any new network of relationships will be established, or knowledge will be passed on if at all, to the detriment of the communities served.

Last but not least, the Bill gives extensive delegated powers to the Secretary of State to amend key parts of the Bill without the consent of the devolved legislatures and, in many areas, without consulting devolved ministers.

This does not inspire confidence in the prospect of a fair and equal distribution of financial assistance throughout the UK, and we fear that **the islands of Scotland will suffer in consequence, as their needs will neither be understood nor met.**

2/ Implication of the announcements made by the UK Government in the 2020 Spending Review for the delivery of the Shared Prosperity Fund in Scotland.

The promises in the spending review 2020 to deliver fast broadband for the most remote islands in Scotland are difficult to believe.

Each time there has been a rolling programme to get remoter communities connected, it has progressed a little further until the next new technology (this time 5G, FTTP) sends Openreach and other installers back to the big cities to start all over again. Whilst SIF considers R100 to be an excellent aspiration, it is a long way from achieving reality. To leave it to the UK government to set the strategy, makes it no more certain than it ever did that it will reach 100% in our lifetimes. In fact, the recent report from the House of Commons Digital Committee indicates they doubt even the UK 85% target by 2025 is achievable and they doubt remote areas will be reached, highlighting, shortage of trained workforce, availability of cabling and other equipment, as well as money.

Whilst the commitment to bring additional funding to an Islands Deal already financed by the Scottish Government is to be welcomed, we deplore the lack of interest by the UK government in addressing in particular the grid situation in the Scottish islands, which have the worst grid capacity and security in the UK. In view of the current outage in the Western Isles and the prior outage in Tiree, it is unacceptable that island communities are having to wait almost two decades for capacity upgrades and that their interests come second after the needs of large corporate developers. It is hard to see why the call from local communities on Lewis for a second 33kV cable to Skye to be installed at the same time that the failed cable is replaced has not been addressed in the spending review, as part of the UK commitment to renewable generation.

There is nothing in the spending review which gives any detail on how what will constitute a transition to the Shared Prosperity Fund which is only expected to come on stream in 2022. It is difficult to see how Scotland and its islands will not lose out further in a situation which is deeply aggravated by the Covid crisis.

- **Conclusion**

There is nothing in the Internal Market Bill or the Spending review which inspire confidence that the Shared Prosperity

Fund will deliver for the islands in the way that the EU structural funds have in the last two funding periods.

The only way the Scottish Islands Federation can see the shared Prosperity Fund benefiting the islands is for the responsibility for distribution of the fund to be devolved to each of the nations of the UK as was recommended by the UK parliament inter party committee on the UKSPF two years ago.

The Scottish Government *has* to be allocated its fair share of the fund for it to meaningfully and positively affect the islands as well as Scotland's other remote and rural territories.

For this to occur, the commitment to maintain at least the current levels of real time funding has to be honoured, and a need-based formula and multi-year financial framework must be agreed as early as possible.

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