

Written evidence submitted by the Royal Society of Edinburgh (SPF0015)

Scotland and the Shared Prosperity Fund

Dear Mr Wishart,

1. The Royal Society of Edinburgh (RSE), Scotland's National Academy, welcomes the opportunity to respond to the Scottish Affairs Committee's call for evidence on *Scotland and the Shared Prosperity Fund (SPF)*.
2. The RSE has closely monitored developments relating to bringing forward the SPF. As well as responding to several inquiries on this issue¹, using the RSE's convening power, in 2020 we brought together a wide range of perspectives from Scottish Government, skills and enterprise bodies, universities and colleges, business and industry, knowledge exchange organisations among others to discuss how successor UK funding to European Structural and Investment Funds (ESIFs) could be used to support innovation and skills development in Scotland.² The insights from this activity were used to inform the Scottish Government's review, *The Replacement of European Structural Funds in Scotland Post EU-Exit* (2020).
3. Through the *Celtic Academies Alliance*, the RSE has also worked closely with the Learned Society of Wales (LSW) and the Royal Irish Academy (RIA) in contributing to discussion around the replacement of ESIFs by the proposed SPF. The RSE's joint work with the LSW and RIA particularly recognises the vital contribution that ESIFs have made to developing research capacity and infrastructure in the devolved nations. We have also highlighted to the UK Government the potential for strategic alignment between the UK Research and Development Roadmap and the SPF given their shared focus on investment in people, skills and place, particularly with a view to creating and levelling-up opportunity across the UK.³
4. While the SPF was first proposed in 2017, detail is only now beginning to emerge on the objectives, scale and allocation of the proposed funding. Further information from the UK Government on the investment framework is expected to be published in spring 2021. The continued uncertainty means it is not possible for national and local governments along with other potential delivery partners to make firm plans on how the funding will be used. It is therefore crucial that the UK Government working collaboratively with the Devolved Administrations sets out urgently how the SPF will operate, including the *level of funding* and how it will be *allocated*.

Principles for the SPF

5. The RSE considers it important that:
 - I. The development and administration of the SPF respect the devolution settlement with strategic guidelines agreed between the UK Government and the Devolved Administrations;
 - II. Responsibility for the delivery of the SPF be transferred to the Devolved Administrations and their partners so that funding decisions can be made as closely as possible to the people, business and communities who will be impacted;

¹ RSE submission (2019) to the Scottish Parliament's Finance and Constitution Committee Inquiry on Structural Funds Post-Brexit https://www.rse.org.uk/wp-content/uploads/2019/04/AP19_04.pdf

RSE submission (2018) to the Scottish Parliament's Finance and Constitution Committee Inquiry on Funding of EU Competences Post-Brexit https://www.rse.org.uk/wp-content/uploads/2018/05/AP18_12.pdf

² RSE roundtable report (2020) to the Scottish Government Review of The Replacement of EU Structural Funds Post-Brexit https://www.rse.org.uk/wp-content/uploads/2020/02/AP20_01.pdf

³ Joint RSE, LSW and RIA roundtable report on the R&D Roadmap (2020) https://www.rse.org.uk/wp-content/uploads/2020/11/RandD_Roadmap_roundtable.pdf

Joint RSE, LSW and RIA letter (2019) to the Secretary of State for Business, Energy and Industrial Strategy <http://www.rse.org.uk/wp-content/uploads/2019/03/3-academies-letter-March-2019.pdf>

- III. The funding allocated to Scotland should be no less in value than the EU Regional Funding it replaces; and
- IV. The allocation of overall funding initially reflects the present distribution (share and level) of EU expenditure between the four nations of the UK and should evolve according to need.

Intergovernmental Relations on the SPF

6. The way in which the SPF is developed and allocated at the UK level will have consequences for the allocation and use of funding in Scotland. The powers outlined in the UK Internal Market Act means that the Westminster Parliament can bypass the Devolved Administrations and spend in devolved areas. In a recent open letter, the Chief Secretary to the Treasury confirmed that the SPF will 'operate UK-wide' using the financial assistance powers within the UK Internal Market Act.⁴ The Spending Review 2020 reinforces the UK-wide nature of the fund, making no mention at all of the Devolved Administrations. These points mean that the design and allocation of the SPF could run contrary to the first two principles we set out above. Any UK-wide approach should be designed and implemented by all four governments within the UK to ensure that the SPF is based on shared regional objectives.

Maximising the impact of the SPF

7. The SPF provides an opportunity for the nations within the UK to design a funding mechanism that will better meet the needs of regional economies throughout the UK and align with policies around economic development and social cohesion. It is important to note that the ESIFs operated on the basis of match funding, but it is not currently clear whether the SPF will carry an expectation of match funding. It will be important to clarify this since the match funding element increases the totality of the project funding. However, the requirement for match funding can constrain the ability of local authorities and other bodies to bid for funds given ongoing pressures on public finances.
8. There is an opportunity to look at these aspects afresh, including de-risking investment to encourage local government and SME involvement, exploring the potential to leverage increased financial support from employers, and keeping the administrative arrangements for future funding as light touch as possible while ensuring appropriate oversight and evaluative functions. Consideration will also need to be given to the design of the application process for funding and whether it can be equalised to ensure that the best ideas and concepts rather than the best applications are funded.
9. However, as our preceding points make clear, there remains a significant level of uncertainty on the plans for designing and operationalising the SPF, including the extent to which governments within the UK will cooperate on the design and distribution of the funds.

Level of Funding and Distribution

10. Under the 2014-2020 programmes, Scotland benefitted from over £780 million of funding through the *European Regional Development Fund* and the *European Social Fund*, with these funds being used to help address regional social and economic disparities. However, the future level of funding to Scotland through the SPF remains unclear. While the UK Government has said that total domestic UK-wide funding for the SPF will 'ramp up' so that it at least matches current EU receipts, the level of funding that will be available to Scotland and the devolved nations and over what timescale is unclear.
11. A key attribute of the ESIFs is that they have provided a sustained source of funding over a seven-year cycle. The UK Government needs to provide a commitment to sustaining the SPF over a significant period of time to provide certainty to those administering and receiving funds. The RSE is clear that the SPF should add value to core public spending with a view to reducing regional inequalities and supporting inclusive economic growth. The SPF should not be used as a replacement for core funding.

⁴ <https://www.gov.uk/government/publications/cst-response-to-scottish-government-request-for-additional-funding/cst-response-to-scottish-government>

12. Where and when possible, the UK and Scottish Governments should work with local partners and agencies in the distribution of funds, so that they can best meet the multi-regional needs of the UK and Scotland. This means that in Scotland the SPF should be administered via existing structures, agencies and bodies, and avoid the creation of new and potentially costly administration infrastructure. National bodies, including the skills and enterprise agencies should work closely with local delivery partners to ensure that localised needs and priorities are met.
13. We hope this response is useful to the Committee as it seeks greater detail on the plans for the SPF. The RSE will continue to pay close attention to the development of the SPF and we would be pleased to continue our engagement with the Committee. Please do not hesitate to get in touch should you wish to discuss this further.

Yours Sincerely,

Dr Alison Elliot

RSE General Secretary

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