Written evidence submitted by Michelle Ballantyne MSP, Convener, Economy, Jobs and Fair Work Committee, Scottish Parliament (SPF0022)

Having been contacted by your Clerks, I hope our input to your work may be helpful.

We conducted our own inquiry on ESIFs/UK Shared Prosperity Fund during 2018 and many of the issues highlighted – and which were conveyed to both the Scottish and UK governments at the time – remain not only relevant but, given the timeframe, more pressing than ever.

Therefore, I attach an annexe with our findings as they relate to the questions from your inquiry along with a further two that set out our findings in full (addressing the themes of guiding principles, funding, timing and transition, and institutional arrangements) and some case studies.

I trust you will not mind that I have copied in the Chair of the Scottish Affairs Committee for his interest and information and that of his colleagues.

May 2020

Annexe A

How effective have existing arrangements for the management of European Structural Funds been?

In the context of both the effectiveness of current arrangements and the model that replaces it, the Committee stated—

"…what comes next, if it is to live up to its proposed title of shared prosperity, must show strategic ambition and policy ownership, be based on the best characteristics of ESIFs – including longer timeframes (beyond electoral cycles), the focus on regional development and an ethos of partnership working – and shaped around that core structural approach. It should therefore be directed at people and places, informed by the experience of practitioners, based on good practice and local knowledge, and, above all, needs-driven."

(See paragraphs 4-16 of Annexe B)

What impact have Structural Funds had on the Welsh economy?

We cannot comment on Wales but in the words of a Scottish Government Minister: "the programme's significant contribution to economic development in Scotland cannot be overestimated"; and the Committee found it was estimated that "ESIFs add up to something between 10 and 25% of local authority spending on economic development and employability in Scotland".

(See paragraphs 23 and 19 respectively of Annexe B)

What lessons should be drawn from previous rounds of European Structural Funds in Wales?

N/A

What should be the priorities and objectives of the Shared Prosperity Fund and what, if any, improvements are needed to the current European funding system?

The evidence from Scottish stakeholders suggested to us that—

"It is probably more straightforward to say what is not wanted from the UK Shared Prosperity Fund: not top-down, not centrally-driven, not short-term, not rigidly bureaucratic. The "what is" is trickier. We have heard calls for strategic alignment and local impact, for stability beyond electoral cycles and flexibility to respond to events, for fundamental reform and policy continuity, for ambition and accountability."

(See paragraph 14 of Annexe B)

Our key recommendations from the 2018 work were—

- to maintain the core structural approach, driven by needs and directed at people and places;
- to keep the best characteristics of ESIFs, including timeframes beyond electoral cycles, the focus on regional development and an ethos of partnership working;
- for the current allocation to Scotland under ESIFs to be the baseline for future monies and there to be no regression in funding;
- to ensure as seamless as possible a transition to the successor fund, and
- for Scotland to decide its own internal allocation formula.

(See paragraph 53 of Annexe B)

What level of funding should Wales receive, and how should this be calculated moving forward?

We do not have a view on funding levels as they relate to Wales, of course, but concerning Scotland—

"The Committee endorses the call for the current allocation to Scotland under ESIFs to be considered the baseline for future funding levels under the UK Shared Prosperity Fund. To echo SCVO, we would expect "absolutely no regression"."

We also saw "a strong case" for funding to continue to be allocated along the lines of the current methodology

(See paragraphs 17-24 of Annexe B)

Should funding be ring-fenced on a nation or regional basis or should the fund be open to competitive tendering?

In our findings, we counselled "against any approach seeking a rigidly HM Treasury-driven or otherwise prescriptive approach to the UK Shared Prosperity Fund. This is not the architecture of the successor fund envisioned or desired by this Committee nor indeed any of our public sector, third sector or local authority witnesses."

Furthermore—

"Practitioners expect responsibility to be shared between the UK Government and the devolved administrations when it comes to devising a framework for the fund. They make the case for Scotland deciding its own internal allocation formula. We concur. Such issues could be discussed and concluded "within the Scottish family", as Scottish Cities put it."

However, we felt that a purely pan-Scotland model was not the way forward either and sought a more nuanced take—

"The Committee calls for a more regionally sensitive and less centralised approach that – in line with the policy direction of enhanced power sharing as outlined in the local governance review – embraces partnership with local authorities and the third sector, among others, from the very outset; one in which spending on potentially effective local projects is not blocked by additional, unnecessary and narrowly applied rules, the community dimension is not lost, and where flexibility is possible, encouraged even, within a national strategic framework."

(See paragraphs 50-52 of Annexe B)

What timescale should be adopted for each funding round? How should responsibility for funding and administering the fund be divided between UK and devolved governments?

Our focus on timing was to "encourage both the Scottish and UK Governments to ensure there is no gap from the end of ESIF funding to the commencement of the UK Shared Prosperity Fund; and to make that transition as seamless as possible in the interests of stakeholder planning both for new projects and those that may be continuing into the next funding regime". (But two years on and given we are still discussing via your inquiry what the Shared Prosperity Fund should look like, that encouragement would appear to have gone unheeded.)

(See paragraphs 25-32 of Annexe B)

Regarding the relationship between UK and devolved governments for funding and administration, practitioners expected "responsibility to be shared between the UK Government and the devolved administrations when it comes to devising a framework for the fund"; and the Committee was quite clear that it should be for Scotland to decide its own internal allocation formula.

(See paragraphs 51-53 of Annexe B)

What role could, or should, local government and, where applicable, city or growth deals play in relation to the fund?

We sought "a more regionally sensitive and less centralised approach", one that "embraces partnership with local authorities and the third sector, among others, from the very outset" and in which "the community dimension is not lost, and where flexibility is possible, encouraged even, within a national strategic framework."

(See paragraph 52 of Annexe B)

Are there any implications for state aid rules?

The focus of our inquiry at that time did not lead us to consider the question of state aid rules.

Annexe B

Economy, Energy and Fair Work Committee

European Structural and Investment Funds Inquiry

Background

1. The Economy, Jobs and Fair Work Committee issued a call for views on 15 February, setting out the remit for the inquiry as—

   "*To understand how European Structural and Investment Funds (ESIF) are currently used to support economic development in Scotland, at both a regional and local level. This will help inform the Committee's views on, and develop ideas for, what should replace ESIFs once the UK exits the European Union*."

2. Views were sought on spending priorities and approval processes, current spending, and future programmes. We received 37 written submissions, a summary of which was included with our provisional findings. Case studies were also provided by Zero Waste Scotland, included as an Annexe to this paper. The Committee heard in person from three panels of witnesses over two meetings, on 8 May and 15 May, and from a session with the Minister for Trade, Investment and Innovation on 11 September.

3. Drawing on this evidence, there are four key areas the Committee wishes to address.

Guiding principles

4. Highlighting the thinking underpinning ESIFs and making the case for whatever replaces them to exist beyond electoral spending cycles, COSLA told us—

   "*It is about long-term, big societal ambitions for Europe, the UK and Scotland. Anything replacing them should focus on big societal ambitions or challenges…The challenge will be to ensure that we agree on a framework such that, no matter who is in power in London or in Scotland, people can sign up to the objectives over the course of several parliamentary terms and spending reviews…"*[1]

5. It was a view widely shared, including by SCVO, who contended the focus should remain on promoting social inclusion, combatting poverty and addressing inequality.[2] Scottish Cities suggested the need to find "*the balance between place-based activities, people-based activities and business-facing activities*".[3] Professor Bachtler said that in the 1990s and early noughties Scotland had been seen as a pioneer in the use of

[1] Economy, Jobs and Fair Work Committee, Official Report, 8 May 2018, Col 40.
[2] EJFW Committee, OR, 8 May 2018, Col 49.
[3] EJFW Committee, OR, 8 May 2018, Col 52.

structural funds, most notably in the areas of community development, evaluation and equal opportunities—

"*The question is, where are the innovation projects…?"*[4]

6. He was more positive about the opportunity now to reconsider how we might deal with the impacts of globalisation, technological change and Brexit at the national, regional and local levels. His concern was whether the UK Government's consultation would be "*sufficiently policy-led*" to take us "*somewhere that involves fundamental reform*".[5] The principles around which the Prosperity Fund could be developed were, in his view: devolution/decentralisation; multi-annuality (as opposed to annual budgeting); partnership at the national, subnational and horizontal levels; integration of funding streams; and accountability (based on transparency and openness).[6] Regional policy ought to encourage consideration of "*territorial equity…the relationship between the economic and the social and how we want to translate that into practice*"[7]. But—

   "*There is a danger of thinking about funds and schemes – this is the classic UK Government approach…rather than thinking more broadly about what it is that we want to achieve*."[8]

7. SCVO were critical of what they saw as barriers to the third sector's participation in the current programme and how it was being administered—

   "*The programme has been hugely characterised by frustration…We have a risk-averse administration process that has become more and more risk averse—the process is administered rather than there being a strategic ambition or strategic ownership. There seems to be no policy ownership. It feels as if it is locked away in a broom cupboard*."[9]

8. Picking up on the question of the timeframe, Robin Smail encouraged "*multiannual finance for multiannual problems*" but also urged the need for greater flexibility and "*even a sub-fund that was dedicated to crisis situations*".[10] The University of Highlands and Islands (UHI) also saw a more responsive approach as "*one of the opportunities*" and described how we measured success as "*a fundamental question*" from which we could then move onto the matter of funding.[11] Professor Bachtler recommended a "*less top down, less prescriptive, and more flexible*" approach, citing Switzerland as a good example of such a model of

[4] EJFW Committee, OR, 15 May 2018, Col 7.
[5] EJFW Committee, OR, 15 May 2018, Col 18.
[6] EJFW Committee, OR, 15 May 2018, Col 19.
[7] EJFW Committee, OR, 15 May 2018, Cols 24-25.
[8] EJFW Committee, OR, 15 May 2018, Col 15.
[9] EJFW Committee, OR, 8 May 2018, Cols 30-31.
[10] EJFW Committee, OR, 15 May 2018, Col 25.
[11] EJFW Committee, OR, 15 May 2018, Col 26.

regional policy.[12] UHI said the approach should be ambitious as well as accountable—

"…*we must look at it in the context of what we want to do with the funds, because that is what really matters. Only then must we find an acceptable and accountable method of delivering and spending the funds*."[13]

9. The Minister for Trade, Investment and Innovation was sceptical about the idea of a crisis sub-fund, pointing out it "*would not be free money*" and so might shrink the size of all the overall fund.[14]

10. In terms of guiding principles, the Scottish Government was "*constrained*" by the UK Government's industrial strategy, the "*broad themes*" of which "*make sense in a Scottish context*"; the themes of cohesion and social inclusion were "*hugely important*"; the Scottish Government's own four i-s – innovation, internationalisation, investment and inclusive growth – "*critical*"; and Mr McKee said the programme should be "*lined up*" with the measures in the National Performance Framework.[15]

11. The Minister highlighted the "*distinctive characteristics*" of the ESF and ERDF programmes – longer timeframes, regional development focus, and partnership working with public bodies and the third sector – as being a solid basis for what came next.[16]

12. He outlined "*the simplification agenda*"[17] in the face of "*6,000 pages of EU requirements*"[18], undertook to meet with SCVO and others "*as we attempt to design the future*"[19] *and* said—

"…*we need to strike a balance between compliance and complexity that will maximise the impact of future programmes on Scotland*."[20]

13. He wished to continue "*to engage with stakeholders*" and seek "*a series of balances*" in arriving at the best approach for Scotland – flexibility versus stability, strategic versus regional, compliance versus (reducing) complexity – but—

"*Anything that we do must ensure that the least-developed regions in Scotland receive the investment that we want, and that people who are furthest from the labour market continue to be brought into it and upskilled*."[21]

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[12] EJFW Committee, OR, 15 May 2018, Col 27.
[13] EJFW Committee, OR, 15 May 2018, Col 31.
[14] EEFW Committee, OR, 11 September, Col 23.
[15] EEFW Committee, OR, 11 September 2018, Col 17.
[16] EEFW Committee, OR, 11 September 2018, Col 4.
[17] EEFW Committee, OR, 11 September 2018, Col 8.
[18] EEFW Committee, OR, 11 September 2018, Col 10.
[19] EEFW Committee, OR, 11 September 2018, Col 11.
[20] EEFW Committee, OR, 11 September 2018, Col 5.
[21] EEFW Committee, OR, 11 September 2018, Cols 17-18.

14. **It is probably more straightforward to say what is not wanted from the UK Shared Prosperity Fund: not top-down, not centrally-driven, not short-term, not rigidly bureaucratic. The "what is" is trickier. We have heard calls for strategic alignment and local impact, for stability beyond electoral cycles and flexibility to respond to events, for fundamental reform and policy continuity, for ambition and accountability.**

15. **ESIFs – the financial instruments of the EU's "cohesion policy" – were designed with the aim to reduce economic and social disparities by supporting projects directed at job creation, improved quality of life, and sustainable development.**

16. **The Committee believes what comes next, if it is to live up to its proposed title of shared prosperity, must show strategic ambition and policy ownership, be based on the best characteristics of ESIFs – including longer timeframes (beyond electoral cycles), the focus on regional development and an ethos of partnership working – and shaped around that core structural approach. It should therefore be directed at people and places, informed by the experience of practitioners, based on good practice and local knowledge, and, above all, needs-driven.**

Funding

17. For the period from 2014 to 2020, Scotland received €476 million from the European Regional Development Fund (ERDF) and €465 million from the European Social Fund (ESF).[22]

18. Despite concerns expressed about delays, IT systems and inadequate consultations, most local authorities recognised the various benefits ESIFs had brought to their area. Aberdeenshire Council, for example, stated that around £17m of grant had contributed towards £40m of investment from 2017-2020, with a positive impact on nearly 13,687 individuals, 654 businesses and 209 projects, and "*creating some 90 jobs*".[23]

19. ESIFs add up to something between 10 and 25% of local authority spending on economic development and employability in Scotland, and Scottish Cities told us—

   "*…regional economic disparities in the UK have not narrowed in recent years, so it would seem somewhat counterintuitive if the money that is available for regional development was cut…*"[24]

20. COSLA observed a consensus among the witnesses that "*the current allocation should be the baseline*". They suggested funding should not impact on the fiscal framework but could be, as with structural funds,

[22] https://beta.gov.scot/policies/european-structural-funds/
[23] Written submission, Aberdeenshire Council.
[24] EJFW Committee, OR, 8 May 2018, Col 48.

"*added on top of it*".[25] SCVO concurred, seeking "*absolutely no regression*".[26] Professor Fothergill wanted to see the new fund "*worth at least as much*" as we currently received via Europe, in the region of £1.5bn a year at the UK level. He pointed out there was already provision made in the OBR's financial estimate into the 2020s "*for UK domestic spending in lieu of EU transfers. The money is there".*[27]

21. Pointing to work undertaken with Malcolm Leitch, Professor Fothergill said the way of working out the allocation of funds between the nations of the UK could not be replicated "*unless you undertake some extremely convoluted statistical manipulation*". He observed "*a great sensitivity*" at both official and ministerial level in the UK Government on the matter and awareness that any reallocation between the four countries "*would potentially invite a political backlash*". He said—

"*The primary issue in Scotland is to lay down a marker that the share should not be reduced, because the economic fundamentals of Scotland compared to those of England, Wales or Northern Ireland have not changed much over recent years."*[28]

22. Professor Bachtler stated that—

"*Within each nation, there would be principles for how funding should be allocated, but the funding allocation in Scotland would be determined by the Scottish Government and Scottish Parliament*."[29]

23. The Minister told the Committee "*the programme's significant contribution to economic development in Scotland cannot be overestimated*".[30] On the basis of current funding levels and factoring in the particular requirements of the Highlands and Islands, he said—

"*…we require not only to maintain at least the level of funding that we get at the moment but to build on it…"*[31]

24. **The Committee endorses the call for the current allocation to Scotland under ESIFs to be considered the baseline for future funding levels under the UK Shared Prosperity Fund. To echo SCVO, we would expect "absolutely no regression". The money is there, as shown in OBR's financial estimates for UK domestic spending in lieu of EU transfers, and Scotland's economic circumstances have not significantly altered nor regional economic disparities in the UK narrowed; the Scottish Government highlighting the particular requirements of the Highlands and Islands. There is a strong case,**

[25] EJFW Committee, OR, 8 May 2018, Col 49.
[26] EJFW Committee, OR, 8 May 2018, Col 49.
[27] EJFW Committee, OR, 15 May 2018, Col 22.
[28] EJFW Committee, OR, 15 May 2018, Col 23.
[29] EJFW Committee, OR, 15 May 2018, Col 24.
[30] EEFW Committee, OR, 11 September 2018, Col 4.
[31] EEFW Committee, OR, 11 September 2018, Col 18.

therefore, for funding to be allocated along the lines of the current methodology.

Timing and transition

25. As Highlands and Islands Enterprise (HIE) told the Committee—

“*The ability to develop programmes and interventions that move seamlessly from the current period, with Government guarantees, into the next phase of funding will be critical.”*[32]

26. The 1st of January 2021 was the date identified by Malcolm Leitch and various others for when the new fund should “*be open for business*”.[33]

27. COSLA said we were “*already getting close to the wire*” to ensure a smooth transition—

“*Regardless of the UK timescales, in Scotland we should start as soon as possible.”*[34]

28. While SCVO described “an emerging potential crisis, because there will be a gap” and also counselled against any complacency—

“*There needs to be some mitigation and some urgency in dealing with the issue.”*[35]

29. Although it is intended we leave the EU in March 2019, with access to ESIFs to “*trundle on*” up until the end of December 2020, the necessity for “*a seamless transition*” was underlined by Professor Fothergill.[36]

30. David Anderson, Head of the Scottish Government’s European Structural Funds and State Aid Division, reported that the “*HM Treasury guarantee changed in July*”, with an extension from the date of Brexit (the previous position) to the end of 2020.[37]

31. He spoke also of the importance of providing clarity as soon as possible for stakeholders for planning purposes—

“*…they are wondering whether they can continue the programmes that they are running or whether they have to make some provision for them not being there.*”[38]

[32] EJFW Committee, OR, 8 May 2018, Col 15.
[33] EJFW Committee, OR, 8 May 2018, Col 45.
[34] EJFW Committee, OR, 8 May 2018, Col 45.
[35] EJFW Committee, OR, 8 May 2018, Col 45.
[36] EJFW Committee, OR, 15 May 2018, Cols 17-18.
[37] EEFW Committee, OR, 11 September 2018, Col 10.
[38] EEFW Committee, OR, 11 September 2018, Col 24.

32. **The Committee encourages both the Scottish and UK Governments to ensure there is no gap from the end of ESIF funding to the commencement of the UK Shared Prosperity Fund; and to make that transition as seamless as possible in the interests of stakeholder planning both for new projects and those that may be continuing into the next funding regime.**

Institutional arrangements

33. The importance of recognising different structures and systems was underscored by SDS (with a reference to welfare)—

“*The Anglocentric programmes that came through the Department for Work and Pensions were designed without much reference to things such as the Scottish index of multiple deprivation or how some of the Scottish Government funds were released. There needs to be an ability to match with the Scottish Government’s strategic intent.”*[39]

34. Robin Smail described “*a very different model to the English set-up” while* COSLA talked of “*dividing responsibility between the UK and the Scottish Government*”.[40]

35. HIE valued “*place-based decision making*”[41] while Scottish Cities described the current set-up as “*the least spatially differentiate European structural fund programme that I can recall*” and hoped for a move from centralisation to “*a more regionally sensitive series of interventions*”[42] that could “*bring need and opportunity together at regional level*”. Regarding the UK Shared Prosperity Fund—

“*…there may be some hard choices to be made on the balance between place-based activities, people-based activities and business-facing activities but, given what will hopefully be a considerable amount of devolution to Scotland, at least those issues will be discussed and concluded within the Scottish family. That will certainly be an advance on having to follow the EU rule book.”*[43]

36. Professor Fothergill was optimistic that the Scottish Government would “*have quite a lot of leeway, within broad UK guidelines, to design its own internal allocation formula”.*[44]

37. Recognising both opportunity and threat, COSLA said—

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[39] EJFW Committee, OR, 8 May 2018, Col 17.
[40] EJFW Committee, OR, 15 May 2018, Col 21.
[41] EJFW Committee, OR, 8 May 2018, Col 17.
[42] EJFW Committee, OR, 8 May 2018, Col 39.
[43] EJFW Committee, OR, 8 May 2018, Cols 52-53.
[44] EJFW Committee, OR, 15 May 2018, Col 30.

"*The question is whether we will have fresh thinking…Administrations and bureaucracies like certainty rather than innovation. However, this moment is perhaps the first time in 40 years that we can rethink some of these frameworks.*"[45]

38. Furthermore—

"*How can we legally bind future Parliaments and Governments in a way that is constitutionally appropriate and effectively give that security [of planning and spend beyond electoral cycles]…We have to ensure that the shared prosperity fund…will work in a way that is structural.*"[46]

39. Professor Fothergill emphasised the importance of "*geographical targeting*" and suggested there had been "*greater targeting of funds at less prosperous part of the country*" in England than had been the case in Scotland.[47] Robin Smail said that centralisation had taken place in "*some of the smaller and better-off EU states*" as funding declined while larger nations – including Germany, France and Spain – retained regional programmes.[48] Within a strategic approach, it was important, he said, "*to identify subregions and subregional problems, as well as local and community problems*".[49]

40. Citing research carried out by OECD, Professor Bachtler referred to Europe-wide "*regional challenges*"[50] and "*spatial consequences*"[51] as "*a rationale for having a strong strategic approach at Scotland level*".[52] He also saw a need to revisit our "*subnational approach*" given social inclusion problems in urban areas as well as rural challenges, with problems like retail, bank and post office closures calling for "*multilevel approaches*"[53]. We had become "*too centralised in our domestic policies*" he said, and "*what is missing is a local or community dimension to economic development*".[54]

41. UHI identified an issue with connecting the national to the local—

"*A major drawback of the governance in our programme is that there is very little in between the joint programme monitoring committee, which is the very high-level Scotland-wide strategy discussion, and what happens on the ground with individual organisations.*"[55]

[45] EJFW Committee, OR, 8 May 2018, Col 53.
[46] EJFW Committee, OR, 8 May 2018, Col 54.
[47] EJFW Committee, OR, 15 May 2018, Col 8.
[48] EJFW Committee, OR, 15 May 2018, Col 8.
[49] EJFW Committee, OR, 15 May 2018, Col 10.
[50] EJFW Committee, OR, 15 May 2018, Col 11.
[51] EJFW Committee, OR, 15 May 2018, Col 12.
[52] EJFW Committee, OR, 15 May 2018, Col 12.
[53] EJFW Committee, OR, 15 May 2018, Col 12.
[54] EJFW Committee, OR, 15 May 2018, Col 34.
[55] EJFW Committee, OR, 15 May 2018, Col 13.

42. They encouraged "*greater granularity*" in the lowlands and uplands, where diversity was as much a feature as the highlands, and said it was "*difficult to look at how you deliver with an approach that is just pan-Scotland.*"[56]

43. Aberdeenshire Council also sought a flexible approach within a national framework, "*with local areas setting priorities based on analysis of local needs*".[57] Angus Council and Argyll and Bute Council argued that local decision making would be crucial to the understanding of varied business and employability needs.[58] A return to the partnership model that had "*worked well in the past*" was advocated by Shetlands Council[59]; all local authorities making the case for local and regional stakeholders to be involved from the outset in the setting of programme priorities and managing the delivery of the funds.

44. The Minister told the Committee there were "*many unknowns*" regarding the UK Shared Prosperity Fund, raising questions about funding levels, where decision making should sit, and the extent to which EU rules would be continued.[60] His "*hope and expectation*" was that discussions would be held with the Scottish and UK governments and "*we will not be treated as just another consultee filling in an online form*".[61]

45. In terms of how to deploy the fund within Scotland, Mr McKee said—

"*The right balance will be between having something coherent strategically at an all-Scotland level…and being able to make decisions at a local level.*"[62]

46. Part of that balance, he suggested, was acknowledging there were different needs across Scotland – and "*even in the Highlands and Islands there are wide discrepancies*" – but that operating at more devolved levels within the country would bring "*more complex*" bureaucracy.[63]

47. He underlined the need for "*an overarching strategic perspective at the Scottish level*" but added—

"…*we want to be able to…look at the landscape, our strategic objectives and what is happening locally, and design programmes that fit into that space – but it is very difficult…until we see what we will be allowed to do.*"[64]

48. Asked how the successor programme would fit with the Scottish Government's local governance review, the Minister said it was something he would "*certainly consider*"; and there were "*a number of moving parts*" with regional economic partnerships, city deals and city region deals.[65]

[56] EJFW Committee, OR, 15 May 2018, Col 15.
[57] Written submission, Aberdeenshire Council.
[58] Written submissions, Angus and Argyll & Bute Councils.
[59] Written submission, Shetland Council.
[60] EEFW Committee, OR, 11 September 2018, Col 15.
[61] EEFW Committee, OR, 11 September 2018, Cols 15-16.
[62] EEFW Committee, OR, 11 September 2018, Col 19.
[63] EEFW Committee, OR, 11 September 2018, Col 19.
[64] EEFW Committee, OR, 11 September 2018, Col 22.

49. David Anderson explained the only part of the current funding locally targeted was the youth employment initiative (in the south west), whereas other schemes "*span either the Highlands and Islands, the rest of Scotland or the whole of Scotland".* To target "*post-industrial communities*", the Ayrshires for example, would require greater flexibility than in the current arrangements[66]—

"*Flexibility to be able to write the programme that addresses the needs of Scotland's economy is the flexibility that would be sought*."[67]

50. **That the Scottish polity has distinct characteristics would seem obvious to most observers. However, for clarity's sake, the Committee counsels against any approach seeking a rigidly HM Treasury-driven or otherwise prescriptive approach to the UK Shared Prosperity Fund. This is not the architecture of the successor fund envisioned or desired by this Committee nor indeed any of our public sector, third sector or local authority witnesses.**

51. **Practitioners expect responsibility to be shared between the UK Government and the devolved administrations when it comes to devising a framework for the fund. They make the case for Scotland deciding its own internal allocation formula. We concur. Such issues could be discussed and concluded "within the Scottish family", as Scottish Cities put it.**

52. **Not that a purely pan-Scotland model is the answer either. The Committee calls for a more regionally sensitive and less centralised approach that – in line with the policy direction of enhanced power sharing as outlined in the local governance review – embraces partnership with local authorities and the third sector, among others, from the very outset; one in which spending on potentially effective local projects is not blocked by additional, unnecessary and narrowly applied rules, the community dimension is not lost, and where flexibility is possible, encouraged even, within a national strategic framework.**

53. **The Committee looks forward to a clearer outline of what the UK Shared Prosperity Fund may look like from the UK Government's forthcoming consultation, our key recommendations being:**

- **to maintain the core structural approach, driven by needs and directed at people and places;**
- **to keep the best characteristics of ESIFs, including timeframes beyond electoral cycles, the focus on regional development and an ethos of partnership working;**

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[65] EEFW Committee, OR, 11 September 2018, Col 21.
[66] EEFW Committee, OR, 11 September 2018, Col 20.
[67] EEFW Committee, OR, 11 September 2018, Col 25.

- **for the current allocation to Scotland under ESIFs to be the baseline for future monies and there to be no regression in funding;**
- **to ensure as seamless as possible a transition to the successor fund, and**
- **for Scotland to decide its own internal allocation formula.**

54. **Finally, in the interests of meeting the successor fund's start date of 1 January 2021 and enabling stakeholders to begin their forward planning, we encourage the publication of the consultation document at the very earliest opportunity.**

Annexe C

Case Study 1

Pennotec is one of several SME's that have been awarded funding through the Circular Economy Investment Fund (CEIF). The CEIF is a grant offering for SME's to drive forward and accelerate the circular economy in Scotland by developing transformational and innovative business models, products and services. The investments made through the CEIF funded European Regional Development Funding and the Scottish Government, and administered by Zero Waste Scotland.

Who?
Pennotec is a Welsh SME who have located in Scotland to demonstrate and bring forward to market their technology. Pennotec aims to provide advice and technology that helps business owners and operators to convert manufacturing waste into marketable resources.

Where?
This work will be done by development, in partnership with Herriot Watt University, of co-product recovery and recycling processes for commercialisation. The project is based within Herriot Watt University.

What?

Pennotec's project highlights Scotland's crab and langoustine processors dispose of around 6,500 tonnes per annum of shell waste containing chitin, astaxanthin-rich protein and omega oils. The Pennotec project aims to produce chitin through industrial biotechnology in a more cost effective and environmentally beneficial process than traditional chemical extraction.

The key outcomes of this investment are:

1. This project provides an exemplar for resource efficient industrial symbiosis, where by-products of the crustacean processing industry provide raw materials for higher value products that support the aquaculture industry in Scotland.

2. Pennotec have indicated that using suitable technology to convert 20% of Scotland's shell waste could yield £40.7 million for the Scottish Circular Economy.

3. When commercially viable, Pennotec's business model will comprise a chitin extraction bio-refinery linked to astaxanthin aquaculture feed ingredient production in Scotland.

4. Societal benefits include business development and job creation in coastal regions of Scotland. This project therefore has the potential to demonstrate the socio-economic and environmental benefits of utilising crustacean shell-derived products within the Scotland's Circular Economy.

Funding offered:
£203,303 for the delivery of the project offered. ERDF funding.

Case Study 2

Zero Waste Edinburgh is one of five Zero Waste Town projects to have been funded by Zero Waste Scotland. Zero Waste Towns are projects designed to intensively test a range of community based approaches to changing behaviour around waste, to identify successful initiatives that can be replicated across Scotland. The Zero Waste Edinburgh project is funded European Regional Development Funding and the Scottish Government, and administered by Zero Waste Scotland.

Who?
The project is delivered by SHRUB – the Swap and Re-use Hub, which is a co-operative of students from Edinburgh University. www.shrubcoop.org

Where?
The project is based in an area of Edinburgh that centres around the University of Edinburgh and covers parts of Edinburgh's Old Town around the centre and Southside of the city.

What?
The Zero Waste Edinburgh project aims to change behaviours around re-using items, reducing food waste and sharing the skills to repair and upcycle in the student population of the University of Edinburgh and surrounding areas.

There are four key areas of the project:

1. Food Sharing Hub – this area of the project sees food from local supermarkets, cafes and delis that is being discarded but is still edible redistributed via pop up stalls and the creation of a new hub that will serve as café and event space.

2. Material Matters Workshops – these workshops aim to give people the ability to keep a wide range of materials in use for longer including textiles, bicycles, electronics, furniture and plastics by giving them the skills to repair, upcycle and repurpose.

3. Re-use Collections – this area of the project involves collected all unwanted goods at the end of term from halls of residence and student accommodation, and redistributing them to students at the start of the next academic year, saving large volumes of items from landfill.

4. Zero Waste Advocate Network – this area of the project involves working with a range of volunteers and advocates to champion the notion of zero waste living within the area

Funding offered:
£299,989 for the delivery of the project offered in addition to the £14,800 offered for the completion of the stage 2 full project proposal. Both parts in recipient of ERDF funding.