CORE CITIES AND SCOTTISH CITIES

DEPLOYING EU SUCCESSOR FUNDING TO SUPPORT OUR CITIES AND CITY REGIONS

SCOTTISH CITIES REPORT

FINAL REPORT_MAY 2019

_ABERDEEN
_DUNDEE
_EDINBURGH
_GLASGOW
_INVERNESS
_PERTH
_STIRLING

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Executive Summary

"The Scottish Cities must be closely involved in the design of the UK SPF and be involved in all discussions regarding its scale, focus and management and delivery processes with the UK and Scottish Governments."

Introduction

The Scottish Cities and Core Cities commissioned ekosgen to explore how Structural Funds have been used to support economic development across the cities and city regions, and identify the common principles to collectively shape EU successor funding programmes based on Scottish Cities and Core Cities' views. This executive summary provides a brief overview of the findings and sets out the recommendations for the Scottish Cities.

Context

The UK Government has stated that the Shared Prosperity Fund will operate across the UK. The objectives set for the fund – tackling inequalities between communities and raising productivity in those parts of the country whose economies are furthest behind – are ones which the Scottish Cities wholeheartedly support.

The Ministerial Statement of July 2017 makes clear that, within England, the Shared Prosperity Fund will be expected to operate within a national framework linked to the Industrial Strategy. Although no similar commitment has been made regarding its use in the devolved nations, the statement strongly links the Shared Prosperity Fund to the UK Industrial Strategy, tackling inequalities between communities by raising productivity, and with an implied geographical focus on those economies which are furthest behind. In Scotland, the UK Industrial Strategy is being implemented in a context of reserved and devolved responsibilities for the Scottish economy. Scotland's Economic Strategy, and the Enterprise and Skills Board's strategic plan set out to drive productivity and inclusive growth in all parts of Scotland.

No formal consultation has yet been undertaken by the Government on the SPF. However, the Government has made clear that:

- UKSPF is a successor to Structural Funds, not a continuation.
- There is no commitment to rolling forward current Structural Fund allocations either by programme or area, or to taking forward the current ERDF / ESF financial breakdowns between themes / priorities and activities.
- SPF will be shaped by UK policy, notably the Industrial Strategy, not EU Structural Fund heritage.
- It is not clear which Departmental budgets the UKSPF will be funded from, and there is a need to make the case for financial investment in the context of the forthcoming Spending Review.

The Scottish Cities have an important role to play in co-designing the SPF, and sharing their experiences and expertise with the UK and Scottish Governments as the SPF model emerges.

Structural Fund Allocations

The Structural Fund programmes have provided significant additional funding to support regional economic development in Scotland through the last three programme periods. The Funds have become much less geographically targeted over time and in the 2014-2020 period are largely controlled centrally, by the Scottish Government and Lead Partners for the strategic interventions through which funding is being channelled.

2000-2020 Financial Allocations €m

	2000-2006		2007-2013		2014-2020	
	Per Annum	Total	Per Annum	Total	Per Annum	Total
Scotland ERDF	138	966	71	498	68	467
Scotland ESF	92	643	46	322	64*	446
Total Scotland	230	1,609	117	820	132	922
Total UK	2,265	15,853	1,413	9,891	1,542	10,795

Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations.
*Includes €11m per annum Youth Employment Initiative funding, targeted at South West of Scotland NUTS 2 area
NB - not adjusted for inflation

There are considerable variations in the allocation of euros per head of population across the UK, in part due to the designation of regions as less developed, transition and more developed. The less developed regions are those with GDP per capita levels of less than 75% of the EU average, and receive a much higher level of funding. In Scotland, the per capita allocation to Highland and Islands is 2.7 times the allocation to the rest of the country.

2014-2020 Financial Allocations €m

	EU Structural Fund Allocation (€m)	**Euros per capita**	**% of UK population**	**% of SF allocation**
England	7,114.8	128.5	84.1%	65.2%
Scotland	922.4	170.1	8.5%	8.2%
H&I	190.3	394.0	1.7%	1.7%
LUPS (inc. YEI)	731.0	148.1	8.2%	6.6%
Wales[1]	2,412.5	772.0	4.8%	22.0%
Northern Ireland[1]	513.4	274.4	2.8%	4.7%

Source: Operational Programmes.
1 Does not include European Territorial Co-operation funding (Interreg), or PEACE IV programme in Northern Ireland (€229m across NI and Border region of Ireland)

How the Scottish Cities and City Regions have Successfully Invested Structural Funds

The Scottish Cities have successfully invested in each of the foundations of productivity, often using Structural Funds and working closely with Government and other public and private sector partners. This collaboration has been supported by the Scottish Cities, the amalgamation of Scotland's seven cities (Aberdeen, Dundee, Edinburgh, Glasgow, Inverness Perth, and Stirling) to focus on investment and growth. These organisations and previous publications of the Scotland Economic Strategy and Agenda for Cities provide a solid platform for further investment through the Shared Prosperity Fund.

'**Innovation**' plays a key role in Scotland's economic strategy for structural funds, acting as a key driver of long-term growth for the economy. Scotland has a strong base of innovation and knowledge assets through its number of high performing universities including four within the top 30 of the UK (St. Andrews; University of Edinburgh; Glasgow; and Aberdeen). Scotland's investment into innovation is driven the 8th City Project, a pioneering development by the seven cities in Scotland to transform city regions through the power of big data and smart systems. Other investment includes research and incubation centres related to health and life sciences, such as the BioQuarter in Edinburgh featuring the Centre for Regenerative Medicine and the innovation campus' in Inverness and Glasgow related to life sciences and manufacturing.

The '**Investment**' priority of Scotland's Economic Strategy covers a wide range of investments based on the need to secure the long term stability of the Scottish economy with a skilled and productive workforce. The main themes for investment include education and skills; infrastructure and business locations; digital; business investment; and the low carbon sector. Within these themes there are a large number of beneficiaries, notably through the Workforce Development Programme run by Skills Development Scotland to secure additional college places for skills that are in short supply. Investments in key pieces of infrastructure have supported city regions such as Dundee, whose £1bn Waterfront Development project has seen crucial European investment over multiple programmes since 1999 and the International Financial Services District in Glasgow which is now a cluster for financial services.

There is a strong focus under the '**Inclusive Growth**' priority to invest in improving employment and education opportunities to facilitate positive life outcomes and improved well-being. Projects under this priority include the Youth Employment Initiative, covering the whole of the South West of Scotland helping those who are unemployed and are at risk of long-term unemployment through social exclusion. Other successful initiatives include the Employability Pipeline programmes over the whole of the nation, as well as the Glasgow Works and the LEAPS (Learning Employability and Progression in Stirling) programmes.

With current high levels of inward investment already in place over Scotland in the oil and marine industries, the ESIF investment strategy places a strong weighting on the priority of '**Internationalisation**', gaining access to new global markets particularly for small and medium-sized businesses. More importantly, this priority focuses on Scotland's case to remain a member state as the UK is in the process of leaving the EU. As such, projects under this priority, organised by Scottish Development International, focus on SME and business support to access wider export markets and encourage inward investment.

The priority of '**Place**' lies within the Scotland's Economic Strategy (under Inclusive Growth) and the UK Industrial Strategy (under productivity) as a means to ensure that all areas of the Scottish economy are performing optimally and there is a balance between the southern lowlands and the highlands and islands. This includes infrastructure in addition to softer investments such as supporting local communities. Scotland's Cities are a vital instrument in the delivery of the Scottish Economic Strategy and ultimately the UK's Industrial Strategy. The seven cities allow for Scotland to invest in projects that are of appropriate scale and allow for suitable collaboration working between industry and government. As a result of Scotland's Structural Fund Investment Strategy, successes in world-leading innovation facilities, business support programmes and wrap-around services to improve education and skills has set a solid foundation for a growth in productivity across Scotland.

Limitations of the Structural Fund Approach

Although the Scottish Cities have achieved many successes in their use of Structural Funds, the approach adopted to managing, overseeing and using the funding has many limitations, and has become more bureaucratic and unwieldy over time. Particular issues include:

- Increasing centralisation of funding and decision-making, providing less opportunity to respond to local circumstances. The use of Lead Partners has further reduced local influence and contributed to a 'silo' approach to delivering, undermining local efforts to deliver holistic packages of interventions. There is also a lack of transparency in the process through which projects are developed and approved.

- The requirement to provide match-funding at an individual project level has proved increasingly problematic due to reduced public sector budgets during a period of austerity. Match-funding requirements have acted to limit the number and range of organisations which are involved in delivering Structural Funded activity, with many smaller organisations unable to sponsor projects.

- Monitoring, compliance and audit requirements have become increasingly onerous, resulting in some activities becoming unworkable. This affects projects across ERDF and ESF and imposes significant burdens on project sponsors and their staff. A greater use of national programmes has also meant that organisations which cannot deliver nationally can be excluded from delivering at all, even when they have got strong local capacity, compounding the loss of local focus.

- The relationship with the Managing Authority is crucial to the management of risk, agreement of strategic priorities and effective implementation and project delivery. However, in the current programme period, the role of the Managing Authority has become more transactional, with little engagement at the project development stage. The relationship is weighted towards contractual matters, and the EUMIS system has been criticised.

- Eligibility rules restrict what can be funded, with some important elements of economic development no longer able to be supported e.g. new commercial premises, transport infrastructure. This can limit the benefits from other Structural Fund investment (e.g. in business growth and employment creation on strategic sites).

- The system does not encourage innovation, with high levels of risk aversion amongst programme managers, and a high degree of risk for project sponsors if project delivery does not proceed as planned. This is particularly challenging for projects working with the most disadvantaged groups and those with complex needs e.g. mental ill-health, socially and economic excluded groups, people with protected characteristics

These factors have acted to limit the achievements of the Structural Funds – preventing some organisations from applying for funding, making others cautious of doing so, causing projects to be designed to meet the funding criteria rather than maximising benefits and meaning too much time and effort goes into back office activities rather than those which will have an impact on the economy. The introduction of the SPF provides an opportunity to do things differently.

The Potential Contribution of the Scottish Cities Regions to Rebalancing the Economy

In spatial terms, the UK is one of the most unequal of all the developed economies[1]. GVA per head in Scotland as a whole is below the UK average (£25,485 compared to £26,749 in the UK[2]). The Scottish Cities are an extremely diverse group, in terms of size, economic function and economic performance. Whilst on average the Scottish Cities have a higher level of GVA per head than Scotland as a whole, there are significant differences between the cities, with levels ranging from 63% to 174% of the Scottish average[3]. This disparity has a major impact on wages, household incomes and shared prosperity.

If productivity levels in Scotland (GVA per full-time equivalent employee) matched the UK average, output would increase by some £9-10bn, less would need to be spent on unemployment and health-related benefits, and more people in work earning higher incomes would generate extra tax revenues which could be spent on national priorities.

Addressing this challenge will not be easy and the gap has widened rather than narrowed in recent years. It is therefore vital that the Shared Prosperity Fund, the UK

1 Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK, Prof Philip McCann, January 2019.

2 Cities Summary, Scottish Government, Jan 2019, and ekosgen calculations.

3 Cities Summary, Scottish Government, Jan 2019, and ekosgen calculations

Government's flagship intervention to support the narrowing of regional inequalities, is properly resourced, correctly targeted and appropriately managed within Scotland to secure the best possible outcomes for the whole country.

Inclusiveness remains a challenge, with above average levels of unemployment, relatively low wages in four out of seven Scottish Cities, too many residents with no or low level skills and high levels of deprivation. Targeting significant Shared Prosperity Fund investment on Scottish City Regions will support the achievement of both Scotland's Economic Strategy and the UK Industrial Strategy because:

1. The Cities account for 67% of the output of the Scottish economy, 64% of the jobs, 58% of the businesses and 58% of the population. They are crucial to the future success of Scotland's economy and to driving up levels of productivity.

2. They also contain 56% of Scotland's most deprived communities, 52% of all unemployed claimants and 49% of Scotland's young unemployed people. Tackling inequality and driving inclusive growth will necessitate a focus on areas with the highest levels of need.

3. The Scottish Cities have accounted for the vast majority of population growth in Scotland in recent years and the role of cities internationally as magnets for young, highly skilled populations suggests that this is likely to continue. As Scotland's population ages over the coming years, it is important to the health of the economy that people of working age are attracted to Scotland, and the Cities have a key role to play in this.

4. As set out in Chapter 3, the Scottish Cities have already successfully invested in the five foundations of productivity, supporting world class research and incubation facilities, developing new economic infrastructure and creating business environments to stimulate new investment and sector growth.

5. The Cities have been leading the way in delivering initiatives to support inclusive growth, and have used ESF and other training funds to provide targeted support to those most distant from the labour market.

6. Through the city region deals, the Scottish Cities, working closely with regional partners, have put in place enhanced governance and delivery capacity which can be used to take forward SPF priorities and city level inclusive growth plans, based on need and opportunity.

The seven Scottish Cities are among the largest population centres in Scotland. Shared Prosperity Fund investment in Scottish Cities could lead to increased productivity, producing higher wages at all levels in the workforce, and contributing to a more inclusive economy across the country.

While a transparent allocation system is required to reflect UK policy, there is an evidence-based case to provide the Scottish Cities with circa 70% of Scotland's allocation of the UK Shared Prosperity Fund.

Developing a Shared Prosperity Fund which works for the Scottish Cities
The UKSPF will be resourced within the context of the forthcoming UK spending review and while the starting point in discussions has been providing funding at a level which matches current Structural Fund expenditure, the new fund will have a specific UK remit and the aggregate level of financing made available should reflect its role in terms of UK policy objectives. The Ministerial statement closely linked the UK SPF to the UK Industrial Strategy but stressed that the UK Government will respect the devolution settlements. The Industrial Strategy is being implemented in a context of reserved and devolved responsibilities for the Scottish Economy and no similar commitment has been made regarding the use of SPF in the devolved nations. However, it is still highly likely that the Shared Prosperity Fund will be expected to contribute to the UK Industrial Strategy, tackling inequalities between communities by raising productivity, and with an implied geographical focus on those economies which are furthest behind.

Taking into account the ambition to use the SPF to deliver Industrial Strategy priorities, and the benefits of providing a single pot which encompasses the multiple funding sources currently used to match Structural Fund investment, there is merit in significantly increasing the value of the SPF, compared to the current Structural Fund programmes.

Shared Prosperity Fund: Financial Scenarios Annual Allocations

SPF	SF Value Maintained	2021-	£1,176m
SPF	SF Adjusted (to maintain real value of 2014-2020 SF allocation)	2021-	£1,354m
SPF	SF Value Maintained + SFUK Match	2021-	£2,245m
SPF Max	LIS Enhanced	2021-	£4,000m

Source: Operational Programmes, ekosgen calculations

The means by which the Shared Prosperity Fund will be managed and delivered is as important as the finance available. There is an opportunity to move away from the Structural Fund programme approach and its limitations, to more effective arrangements, which take account of how partnerships and policy have changed over the past four years. The proposed new arrangements need to be viewed as a package of improvements, rather than a wish list from which Government can cherry pick. These new arrangements are based on a high degree of trust and an understanding that many decisions are best made locally.

Approach	Commentary
National Framework	There should be a national framework for UKSPF within Scotland, linked to the objectives of the UK Industrial Strategy, Scotland's Economic Strategy, and reducing economic inequalities between communities. This should provide higher level strategic direction, objectives and priorities. It should not set financial allocations or targets which are handed down sub-regionally based on financial allocations.
Maximum devolution of management and delivery	Government's default position should be to devolve management and delivery to the Scottish Cities and / or regional bodies with sufficient capacity, with co-delivery used for other areas as a transition to introducing full local delivery.
Outcome Based	Moving away from activities and outputs as key measures to the more relevant substantive outcomes of investment.
Local Strategies	UKSPF should be used to boost and extend local strategies, notably city region deals and local plans for inclusive growth.
7 year Fund	As the most important financial source for addressing the UK's productivity and inclusive growth challenges, UKSPF needs to move from short term funding to a long term approach, with seven years as the minimum funding period.
Flexible, Single Pot	Monies should be provided with as few restrictions as possible, no restrictions on capital / revenue, or prescriptive allocations by theme, and reduced restrictions on eligible activities e.g. land remediation.
Simplified appraisals	Government and partners should agree a simplified appraisal and decision making system, proportionate to the funding and activities, reducing the over engineering and bureaucracy which has crept into the process.

Opportunities and Risks
The introduction of the SPF provides an opportunity to establish a substantive long term fund to deliver sub-regional strategies for economic growth. The introduction of a transparent allocation system raises the prospect of a greater proportion of national resource secured for Scottish Cities / city regions. With relatively few details yet released by the Government, there is an opportunity to influence the Fund's development and ensure that both priority setting and decision-making are devolved to the Scottish Cities / city regions, to better align resource to local needs. The new approach also provides an opportunity to move from an output / activity approach to an outcome system, with stronger links to productivity factors and inclusive growth.

However, the introduction of the SPF also brings a number of risks. The first is that sticking with the status quo on resource levels, allocations and levels of devolution in decision-making is the easy option for both the UK and Scottish Governments – in any attempt to change things, the losers are likely to shout more loudly than the winners, so there is a temptation to change little. There is also a risk that the current management arrangements are continued for SPF, or are re-invented without significant improvements being made. In making the case for increased devolution, it is important that the Scottish Cities' track record in developing and delivering economic development programmes is fully understood by Government, so that they appreciate the skills and expertise which are embedded in the Scottish City regions. The introduction of a transparent allocation mechanism also brings a degree of risk. The indicators used and the weightings applied to them will have different implications for each Scottish City region.

Recommendations:
The major recommendations emerging from this work are:

1. SPF should use a transparent, needs-based allocation system, linked to the objectives of the UK Industrial Strategy, Scotland's Economic Strategy and reducing economic inequalities between communities. While challenging, any new system should seek to take account of both need and opportunity.

2. The Scottish Cities should make the case that the UKSPF budget should not be determined by previous levels of Structural Funds and should be significantly increased. As a minimum, UKSPF should be funded at a level of circa £4bn per annum for seven years, equivalent to c. £340m per annum in Scotland, reflecting its importance in delivering UK and Scottish policy objectives.

3. The Scottish Cities should work to secure Ministerial commitment to moving away from short-term and siloed funding pots linked to the specific agendas of the Departments from which they are originally made available. A more holistic approach is needed, which requires a significant degree of trust in local decision-making.

4. There is a compelling case, based on the Scottish Cities' track record of ERDF and ESF investment, agreed local strategies, capacity and ambition to devolve a large proportion of Scotland's allocation of the UKSPF to the Scottish Cities.

5. The Scottish Cities must be closely involved in the design of the UK SPF and be involved in all discussions regarding its scale, focus and management and delivery processes with the UK and Scottish Governments. Both Governments must work with the Scottish Cities to co-design the SPF, to ensure their expertise in raising productivity, supporting inclusive growth and tackling inequalities between communities informs the Fund.

6. The constant on-off and changing of funding streams and programmes undermines efforts to strengthen local economies. Despite the lack of certainty over the SPF, the Scottish Cities should begin to develop a portfolio of projects to deliver local economic strategy priorities, building on investment already made through the Structural Funds.

1

Introduction

"The objectives set by the Government for the Shared Prosperity Fund (SPF) – tackling inequalities between communities, and raising productivity – are ones which the Scottish Cities whole-heartedly support."

This report to the Scottish Cities has been produced by ekosgen. The Scottish Cities, in partnership with the Core Cities, commissioned ekosgen to explore how Structural Funds had been used to support economic development across the cities and city regions, and identify common principles to collectively shape future EU successor funding programmes, based on Core Cities and Scottish Cities views.

The report draws on detailed analysis of project and programme data from across Scotland, previous Operational Programmes and evaluations, as well as consultations with those most closely involved in delivering Structural Fund activity within Scotland. It will inform the Core Cities and Scottish Cities submissions to the UK Government's Shared Prosperity Fund consultation and future discussions with UK and Scottish Governments.

The UK Shared Prosperity Fund
The objectives set by the UK Government for the Shared Prosperity Fund (SPF) - tackling inequalities between communities, and raising productivity in those parts of the country whose economies are furthest behind - are ones which the Scottish Cities wholeheartedly support. Both the UK and Scottish economies have grown in recent years, although the employment rate in Scotland has fallen back slightly from the record high seen in July 2017. However, the benefits of this success have been unevenly distributed.

The Ministerial Statement of 24th July 2018 by James Brokenshire, Secretary of State for Housing, Communities and Local Government, set out the key aspects of the Shared Prosperity Fund.

- **The objective of the UKSPF:** The UKSPF will tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind. The UKSPF will achieve this objective by strengthening the foundations of productivity as set out in our modern Industrial Strategy to support people to benefit from economic prosperity.

- **A simplified, integrated fund:** Simplified administration for the fund will ensure that investments are targeted effectively to align with the challenges faced by places across the country.

- **UKSPF in the devolved nations:** The UKSPF will operate across the UK. The Government will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage the devolved administrations to ensure the fund works for places across the UK.

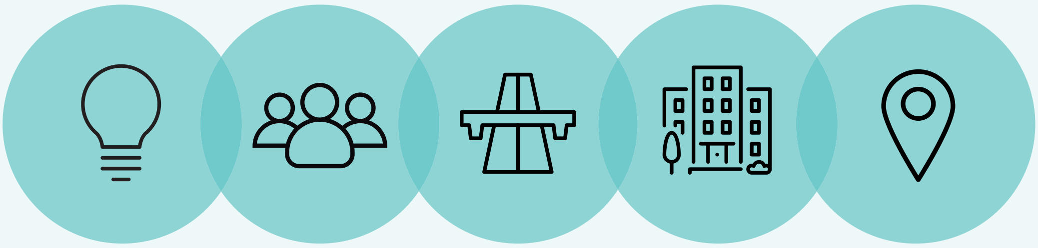
The Ministerial statement makes clear that, within England, the Shared Prosperity Fund will be expected to operate within a national framework linked to the Industrial Strategy. Although no similar commitment has been made regarding its use in the devolved nations, the statement strongly links the Shared Prosperity Fund to the UK

Industrial Strategy, tackling inequalities between communities by raising productivity, and with an implied geographical focus on those economies which are furthest behind.

The UK Industrial Strategy makes clear that while the UK has significant economic strengths on which the country can build, more work is needed to increase national productivity and make the most of the untapped potential right across the country. In Scotland, the UK Industrial Strategy is being implemented in a context of reserved and devolved responsibilities for the Scottish economy. Scotland's Economic Strategy, and the Enterprise and Skills Board's strategic plan set out to drive productivityand inclusive growth in all parts of Scotland. There are thus clear areas of high level align-ment between the UK Industrial Strategy and Scottish economic development priorities:

UK Industrial Strategy Foundations of Productivity, and Scotland's Economic Strategy Priorities

Our five foundations align to our vision for a transformed economy

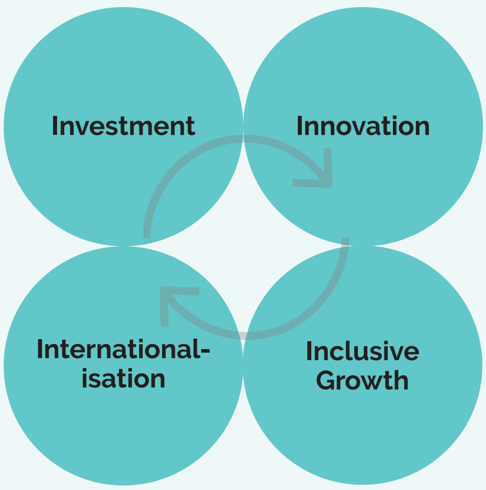


Ideas	People	Infrastructure	Business Environment	Places
The world's most Innovative Economy	Good jobs and greater earning power for all	A major upgrade to the UK's infrastructure	The best place to start and grow a business	Prosperous communities across the UK

Scotland's Economic Strategy Priorities

Education, skills and health
Infrastructure and digital
Business investment
Natural capital, resource efficiency and low carbon
Communities, local assets and housing

Business innovation and entrepeneurship
Workplace innovation and digital
Commercialisation of research and development
Public services



Trade
Investment
International Connectivity
Global outlook, influence and networks

Fair work
Business pledge
Promoting equality and tackling inequality
Place and regional cohesion

Source: UK Industrial Strategy, HM Government, 2018, Scotland's Economic Strategy, Scottish Government, 2015

The Scottish Cities have already successfully invested in each of the UK strategy's five foundations and the four priorities of Scotland's Economic Strategy[4], using Structural Funds and other funding streams. With a strong asset base in each city, there is a strong platform for further investment through the Shared Prosperity Fund.

The UKSPF will focus on strengthening the foundations of productivity to ensure that people benefit from economic prosperity, i.e. it will both support economic growth and ensure that that growth is inclusive. The interdependence of these ambitions is recognised in Scotland's Economic Strategy. There are different interpretations of inclusive growth, with different levels of emphasis sometimes placed on the 'growth' and 'inclusion' elements. The Scottish Government definition: "*growth that combines increased prosperity with greater equality, creates opportunities for all and distribute the benefits of increased prosperity fairly*" makes it clear that both must be present for inclusive growth to occur. The Inclusive Growth Diagnostic developed by Scotland's Centre for Regional Inclusive Growth helps each area to identify inclusive growth priorities and will guide the development of local plans and strategies to create inclusive growth and tackle inequality.

Context

There is no commitment by the UK Government to continuing with the EU Structural Fund approach. It has been made clear that:

- UKSPF is a successor to Structural Funds, not a continuation.
- There is no commitment to rolling forward current Structural Fund allocations either by programme or area, or to taking forward the current ERDF / ESF financial breakdowns between themes / priorities and activities.
- SPF will be shaped by UK policy, notably the Industrial Strategy, not EU Structural Fund heritage.
- It is not clear which Departmental budgets the UKSPF will be funded from, and there is a need to make the case for financial investment in the context of the forthcoming Spending Review.

The emphasis on the UK Industrial Strategy essentially makes the EU approach of Convergence and the categorisation of regions into Less Developed, Transition and More Developed Regions, applied across the 27 Member States, redundant.

While there is no commitment to maintaining the split between the two major EU Structural Funds, it is important to recognise the different but complementary roles that each has played. The European Social Fund (ESF) has been a major source of funding for training and employability programmes since the UK joined the then EEC. This includes a considerable number of initiatives supporting those distant from the labour market, as well as supporting the development of higher level skills amongst

4 Scotland's Economic Strategy, Scottish Government, 2015.

those already in the workforce – something which will become increasingly important as the effects of automation and digitalisation are felt within the workforce, and new industries and jobs of the future come on-stream. The European Regional Development Fund (ERDF) exists to support regions whose development is lagging behind – providing a place-based approach to inclusive growth.

One aspect of the EU approach which remains attractive to many stakeholders is the practice of providing areas changing from a regional designation which attracts a high financial allocation to one which attracts a lower level of funding, with a transitional funding arrangement to avoid a cliff edge in funding for key projects.

There is no commitment to adopting this approach in the move from EU Structural Funds to the Shared Prosperity Fund, although a considerable number of areas have made the case that there should be no reduction in the amount of funding available through the SPF.

2

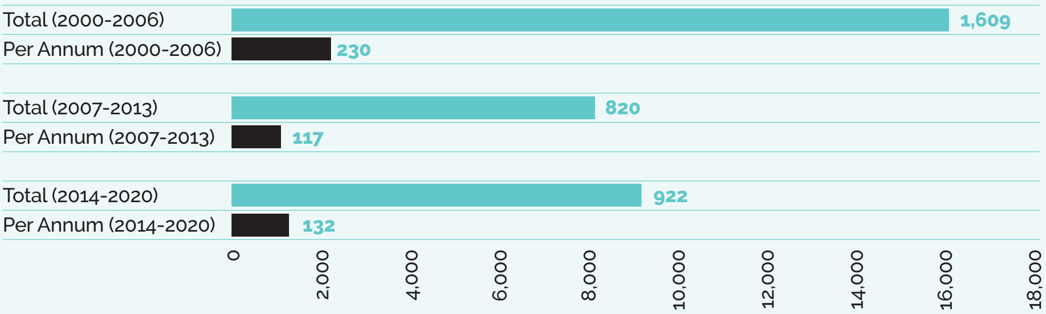
Scotland Structural Funds Financial Allocation

"Given Scotland's performance on key economic indicators, there may be an argument for Scotland to receive a higher share of UKSPF"

Financial Allocations 2000 to 2020

The Structural Fund programmes[5] have provided significant additional funding to support regional economic development though the last three programme periods: 2000-06, 2007-2013 and 2014-2020. In the first period, funding was allocated to four separate regional areas within Scotland, with the Highlands and Islands eligible for a higher level of funding (Special Transitional Objective 1 programme) while other areas – West of Scotland, East of Scotland and South of Scotland – were eligible for lower intensities of support (Objective 2). Within these four areas, funding was targeted at specific parts of each region, with some places eligible for full support, some not eligible for support at all, and others classed as areas of transition, where a lower intervention rate applied.

Scotland Structural Fund Allocations €m



Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations.
Note: Includes ERDF and ESF through Objective 1, 2 and 3 Programmes (2000-06), Convergence and Regional Competitiveness Programmes (2007-2013), European Structural and Investment Funds programme (2014-2020)

Although the value of the EU budget allocated to addressing economic and social disparities increased by nearly 80% between 2000-2006 and 2007-2013, the total value of Structural Funds allocated to Scotland reduced significantly. The accession of a number of Eastern European nations meant that a smaller proportion of total funding was allocated to the UK, and fewer UK regions qualified for the highest level of funding. However the somewhat unique and challenging economic conditions in the Highlands and Islands resulted in it qualifying for the highest level of support, as a Convergence region.

The 2007-2013 and 2014-2020 programmes were much less geographically targeted than the 2000- 2006 period; by 2014-2020 all of Scotland was covered by the Structural Funds. The Highlands and Islands is a 'transition region' under the current programme, with a ring-fenced allocation of funds and higher intervention rates permissible. However, the funding for the rest of Scotland, designated as a 'more developed region' can be used across the Lowlands and Uplands, with the exception of Youth Employment Initiative ESF funding, which is targeted on the South West of Scotland NUTS2 area, due to the very high levels of youth unemployment.

5 The focus throughout this report is on the European Regional Development Fund (ERDF) and European Social Fund (ESF). The figures provided do not include funding for transnational projects and Community Initiatives.

While there have been a number of smaller programmes supported through the Structural Funds (Community Initiatives and Territorial Cooperation programmes), and Scottish organisations have been able to bid for various EU-funded research and exchange programmes to encourage international cooperation and collaboration, mainstream ERDF and ESF funds allocated based on regional need have been the major sources of EU financial support for economic development.

2000-2020 Financial Allocations €m

	2000-2006		2007-2013		2014-2020	
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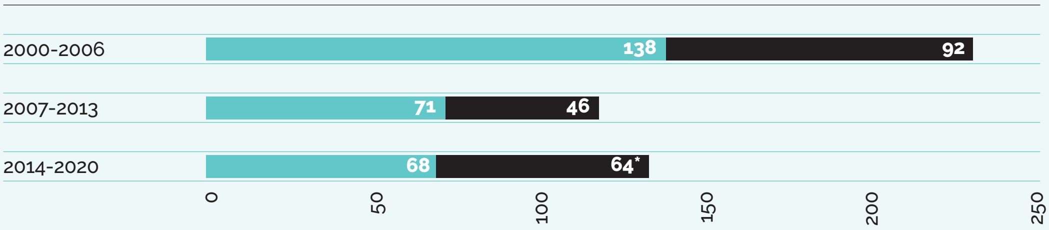
Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations.
*Includes €11m per annum Youth Employment Initiative funding, targeted at South West of Scotland NUTS 2 area

While ERDF sometimes has a higher profile, ESF has provided skills and training support to millions of beneficiaries over the past 20 years, and each year ESF funds a broad range of training initiatives, including a considerable number targeted at those most distant from the labour market.

Annual ERDF and ESF Allocations €m
ERDF ESF



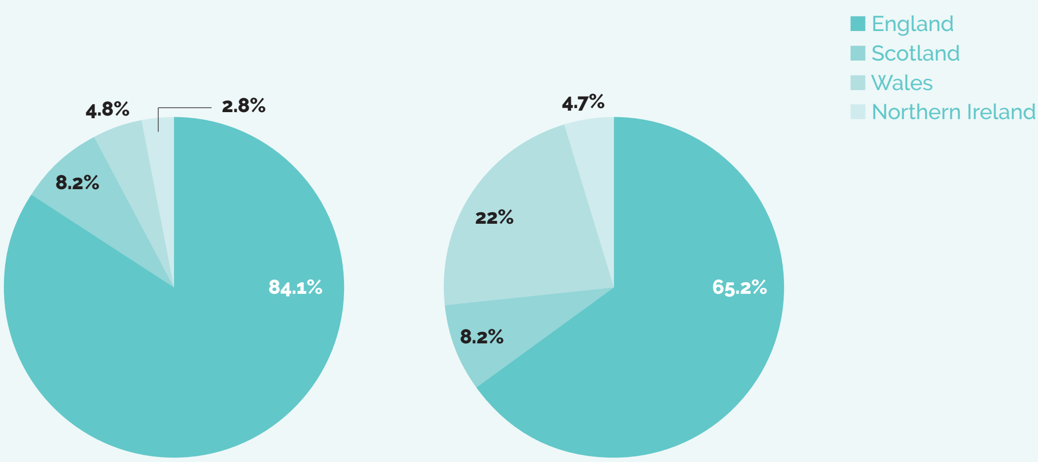
Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations *Includes €11m YEI funding
Note: Includes ERDF and ESF through Objective 1, 2 and 3 Programmes (2000-06), Convergence and Regional Competitiveness Programmes (2007-2013), European Structural and Investment Funds programme (2014-2020). Does not include EAGGF, FIFG, EAFRD, or European Territorial Co-operation Fund (Interreg)

The total expenditure on ERDF and ESF Structural Funds supported activities more than doubles when public sector match funding is taken into account.

2014-2020 Financial Allocations

In the current UK context, Wales and Northern Ireland receive significant levels of financial support from the current Structural Funds programme. In the case of Wales, the designation of West Wales and the Valleys as a Less Developed Region has led to an exceptionally large allocation due to its low level of GDP relative to the EU average, resulting in Wales receiving 22.0% of UK Structural Funds, with a population of 4.8% of the UK total. Scotland's share of the total UK allocation – 8.5% – is very slightly higher than its share of the UK's population. Given Scotland's performance on some of the key economic indicators likely to be taken into account when allocating SPF – GVA per job and per hour worked, employment rate, deprivation levels[6] – there may be an argument for Scotland to receive a higher share of SPF.

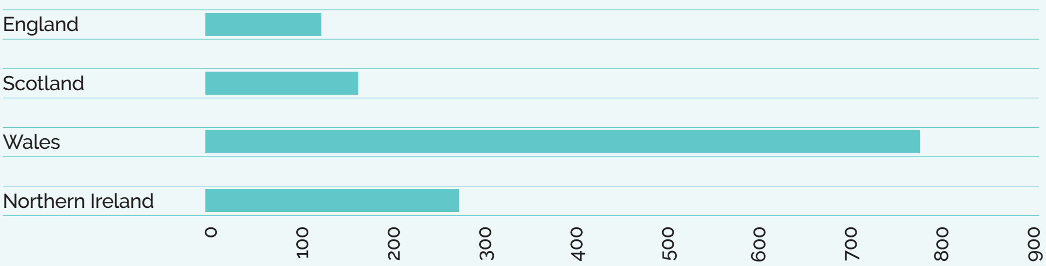
Percentage share of UK population **Share of 2014-20 SF allocation**



Source: UK ESIF Operational Programmes

The current system for distributing Structural funds across the UK results in a very high allocation per capita in Wales, whilst Scotland receives considerably less per head than Wales and Northern Ireland:

UK Structural Fund Allocations 2014-2020 € per head



Source: UK ESIF Operational Programmes, ONS Population Estimates

6 Analysis undertaken by the Joseph Rowntree Foundation has highlighted the interesting relationship between neighbourhoods classed as multiply deprived by the SIMD, and the circumstances of residents, and how these vary across Scotland. Whilst in Glasgow there is a strong association between poor households and poor places, in other places, poor households are dispersed more evenly between areas classed as having different levels of deprivation. Even in the 20 per cent of places classed as the most deprived, a majority of residents are not income-deprived or employment-deprived. This has implications for the use of SIMD as part of any allocation process. (Child Poverty (Scotland) Bill, The Joseph Rowntree Foundation's response to the Social Security Committee's call for evidence, March 2017).

2014-2020 Financial Allocations €m

	EU Structural Fund **Allocation** (€m)	Euros per capita	% of UK population	% of SF allocation
England	7,114.8	128.5	84.1%	65.2%
Scotland	922.4	170.1	8.5%	8.2%
Wales[1]	2,412.5	772.0	4.8%	22.0%
Northern Ireland[1]	513.4	274.4	2.8%	4.7%

Source: Operational Programmes.
1 Does not include European Territorial Co-operation funding (Interreg), or PEACE IV programme in Northern Ireland (€229m across NI and Border region of Ireland).

The designation of Highlands and Islands as a 'transition' region means that, under the Structural Funds system, it is eligible for a greater intensity of support than the rest of Scotland, which is classed as being 'more developed'. Just over 20% of the total Structural Funds allocated to Scotland in the 2014-2020 programme period will be spent in the Highlands and Islands, which accounts for 9.0% of Scotland's population.

2014-2020 Major Financial Allocations €m

	EU Structural Fund **Allocation** (€m)	Euros per capita
Highlands and Islands	191.5	391.0
Rest of Scotland	731.0	148.1
Scotland (Total)	922.5	170.1

Source: Operational Programmes.

Under the current programme period, different approaches have been adopted to the allocation of Structural Funds within the different nations and regions of the UK. In Scotland, there is one Operational Programme for ERDF and one for ESF covering the entire 5.4m population, with no sub-national allocation of funding, other than the ring-fenced money for the transition region, Highlands and Islands. It is a similar picture in Northern Ireland, with one Operational Programme for ERDF and one for ESF covering the entire region (with a much smaller population, 1.87m).

In Wales, there are two ERDF programmes and two ESF programmes, covering West Wales and the Valleys (a 'less developed region' with a population of 1.96m) and East Wales (a 'more developed region' with a population of 1.16m). In England, there is one Operational Programme for ERDF and one for ESF covering the entire country, but notional financial allocations have been made to 38 Local Enterprise Partnership areas, ranging in population size from 498,000 (Cumbria) to 8.83m (London), based on past levels of Structural Fund investment.

Across the UK, there are a considerable number of areas where the 2014-2020 total EU funding and per capita allocations are modest. These areas are primarily in the south of England and have a combined population of some 22.7m. Together they have been allocated circa €1bn in the current programme period, half of the value of the West Wales and the Valleys allocation. The annual allocations in each area are very modest, particularly when spread between two Funds and over a number of priorities.

Conclusion

The Structural Fund approach has changed from one of highly targeted geographical support and a broad range of eligible actives, to universal geographical coverage but a much narrower range of priorities and eligible activities. There has been an increasingly close balance between ERDF and ESF at the Scotland level, with two different sets of rules, reflecting EU approaches to employment / skills and regional policy. It is not clear if this distinction will be, or needs to be, continued in the Shared Prosperity Fund

The EU system gives very high levels of support to certain categories of regions, using the 75% of EU average GDP per head as a threshold to target substantially higher levels of funding to those regions which are furthest behind the average, to fit with EU regional policy of concentration of resources. In Scotland, this has resulted in high levels of funding allocated to the Highlands and Islands, compared to other parts of the country.

3

How Structural Funds have been Successfully Invested in Scotland

"The Scottish Cities and City Regions have already successfully invested in the four Economic Strategy priorities and the five foundations of productivity. These investments represent a strong asset base and provide a platform for further investment through the Shared Prosperity Fund."

Introduction

The importance of the Scottish Cities - Glasgow (the only Scottish City which is part of the Core Cities group), Edinburgh, Aberdeen, Stirling, Dundee, Perth and Inverness – and their wider city regions to the overall strength of Scotland's economy is widely recognised:

- **In Scotland's Economic Strategy:** "Scotland's cities and their regions are home to two-thirds of the Scottish economy and over half of Scotland's population, and have a disproportionate impact on the national economy. The size and scale of Scotland's cities drives the agglomeration of business and creates a dynamic environment for knowledge sharing and innovation."

- **In the Agenda for Cities[7]:** "Our vision is of a Scotland where our cities and their regions power Scotland's economy for the benefit of all."

- **In the National Planning Framework:** "Cities and their surrounding regions will be a focus for investment."

In recent years, collaborative working between the Scottish Cities and Scottish Government has been facilitated by the establishment of the Scottish Cities Alliance. At local level, cities are working in greater partnership with the surrounding regions, through city region deals and the emerging regional economic partnerships. The Scottish Cities are also working with public sector organisations such as the Scottish Funding Council, Skills Development Scotland and the Enterprise Agencies (Scottish Enterprise, Highlands & Islands Enterprise and the emerging South of Scotland Enterprise), and with private and third sector organisations to ensure greater coherence at local level.

Over £134m per annum is being invested in economic development in Scotland through ERDF and ESF over the current seven year programming period. This investment is being supported by a considerable amount of match funding, primarily from the public sector. The Structural Funds are delivered through a series of Strategic Interventions which align with the four priorities identified in Scotland's Economic Strategy. It is also possible to map this expenditure (and that from previous Structural Fund programming periods) against the five foundations of productivity in the UK Industrial Strategy, to which UKSPF expenditure is likely to be expected to contribute: ideas, people, infrastructure, business environment and place.

The Scottish Cities and City Regions have already successfully invested in the four Economic Strategy priorities and the five foundations of productivity, often using Structural Funds and working closely with the Scottish Government and other public and private sector partners[8]. These previous investments represent a strong asset base for the Scottish Cities, and provide a platform for further investment through the Shared Prosperity Fund.

7 Scotland's Agenda for Cities, The Scottish Government, March 2016.

8. It should be noted that the approach to allocating SF funding to Lead Partners (which are often national organisations) means that, of the funding committed to operations (i.e. projects) by August 2018, only 26% had been allocated to local authorities, with 72% being drawn down by the Scottish Government or Non-Departmental Public Bodies / Agencies. Source: European Union funding in Scotland, Scottish Parliament Information Centre Briefing, September 2018. An earlier SPICe Briefing highlighted the difficulty of identifying how much of the Structural Funds are being spent in, or benefit, different areas of Scotland. The majority of spending (just over 60%) is being spent on projects where data showing the geographical breakdown is not collected centrally. Source: European Union funding in Scotland, Scottish Parliament Information Centre Briefing, November 2016.

Scotland's Economic Strategy Priority: Innovation
Scotland's Economic Strategy recognises innovation as a driver of long-term economic growth and competitiveness, and its role in building economic resilience and helping businesses and economies compete internationally. It highlights Scotland's strong base of innovation and knowledge within world-leading institutions, and sets out how Scotland will:

- Support the development of highly innovative businesses across the economy;
- Encourage more of Scotland's diverse business base to engage in innovation and research and development as part of their day-to-day activities;
- Continue to support the high-impact, world-class research of Scotland's universities and improve levels of commercialisation of academic research;
- Develop, with key partners such as business organisations and trade unions, innovative approaches to developing progressive workplace practices; and
- Develop and deliver new approaches to public service reforms and make better use of our public procurement to drive innovation.

There is close alignment with the UK Industrial Strategy, which sets out the role of ideas in the new industrial revolution:

"Our ability to innovate – to develop new ideas and deploy them – is one of Britain's great historic strengths, from the jet engine and the bagless vacuum to MRI scanners and the World Wide Web. We are a global leader in science and research: top in measures of research excellence and home to four of the top 10 universitiesin the world.

We need to do more to ensure our excellence in discovery translates into its application in industrial and commercial practices, and so into increased productivity. The government and the private sector need to invest more in research and development (R&D). We need to be better at turning exciting ideas into strong commercial products and services. And we must do more to grow innovation strengths in every part of the UK, as well as maintaining our position as a global leader in science and innovation.

Through our Industrial Strategy, Britain will take a leading role in a new industrial revolution as significant as the last.

Both Scotland's Economic Strategy and the UK Industrial Strategy see a key role for universities as suppliers of highly skilled graduates, drivers of innovation and enterprise and as significant local economic entities in themselves. Scotland's research excellence is widely recognised, with 77% of Scottish university research assessed as world leading (four star) or internationally excellent (three star). The Structural Funds have supported major investment in research and innovation through a wide range of investments both in terms of research facilities, incubation centres and revenue funded support aimed at company commercialisation[9].

9. The EU has also supported investment in R&D through other funding streams, including Horizon 2020, which are not within the scope of this study

Stimulating higher levels of innovation activity requires long-term investment and commitment to providing excellent facilities, developing world-leading expertise and bringing about a culture change amongst the business base. Many of the Structural Fund investments made in innovation-related activities reflect this long-term approach, with investments made in one programme period reinforced by further, complementary investment in later years. Many of these investments will help to address the grand challenges identified in the Industrial Strategy – artificial intelligence and Big Data, clean energy, an ageing society, and future mobility. This is illustrated in a number of examples, including:

- **Edinburgh BioQuarter, including the Centre for Regenerative Medicine (CRM) –** the University of Edinburgh's Centre for Regenerative Medicine secured £5.3m in ERDF funding from the 2007-2013 programme as part of a much larger funding package (£59.0m) to build a new research centre which opened in May 2012. The Centre currently employs more than 270 scientists and clinicians conducting world leading research into stem cells, disease and tissue repair to advance human health. The CRM is part of Edinburgh's BioQuarter, home to a cluster of innovative Life Science companies, the Royal Infirmary and the University's clinical research facilities. Further investment (£10.7m) has been secured for the Centre for Tissue Repair (CTR), including laboratory space for 350 scientists.

- **Inverness Campus –** secured £836,000 ERDF funding from the 2007-2013 programme towards a £3m Health and Life Science facility bringing together private, public, and academic staff. The 1,000 sq. m. research centre conducts world-leading research into diabetes, genetics, digital medicine and rural health. The campus as a whole is predicted to employ more than 1,300 staff in a teaching and research capacity by 2020 and 6,000 by 2045.

- **Technology and Innovation Centre, University of Strathclyde –** the £89m TIC project included a £6.7m ERDF contribution through the 2007-2013 programme. The TIC brings together 850 researchers, engineers and project managers from the University and industry. It is helping to transform university-business collaboration, focussing on strategic themes including manufacturing & materials, health & wellbeing, innovation & entrepreneurship and ocean, air & space.

- **The 8th City Project –** an ambitious programme of collaborative innovation across all the Scottish Cities using technology and data to make the lives of citizens better, cleaner, and more efficient. The 'smart cities' approach involves improving digital connectivity and integration of big data for the benefit of city residents. A total of £24.1m ERDF has been approved to date, with total eligible costs amounting to £58.1m.

- **Aberdeen University HVDC (High Voltage Direct Current) Research Centre –** builds on the University and city's expertise in power systems and has attracted funding from ERDF amongst a range of other funding sources.

- **Elevator Centre of Entrepreneurship, University of Dundee –** opened in 2017, the centre is the result of a unique partnership between Elevator, a social enterprise which supports entrepreneurship, business start-up and growth, and the University. Part funded by ERDF, the centre aims to drive innovation within businesses and commercialise new and existing technologies across sectors including life sciences, digital media, gaming and other creative sectors across Tayside and beyond.

In addition to the development of these new facilities and others like them, funding has also been made available to support SMEs to engage in innovation, although this has tended to be on a national, rather than City-based, basis. £12m has been allocated to the innovation element of the SME holding fund, a financial instrument which enables SMEs to access funds for research and development and provide finance to innovative start-ups other lenders would consider too high risk. This Fund is the responsibility of the Scottish Government and is delivered through a number of partners.

Conclusion

Investment in research facilities has been complemented by specialist incubation centres and grow on space, as well as revenue support and loan finance to help small and medium sized companies to develop new products and processes, accessing world class expertise in Scotland's Universities. The combination of research facilities, business space and business support has created an environment in which the commercialisation of science and technology has been prioritised, and supports both Scottish Government and UK Government priorities.

Scotland's Economic Strategy Priority: Investment

The 'investment' priority within Scotland's Economic Strategy is very broad-ranging. It reflects the need to invest across a range of activities to strengthen the long-term prospects of the Scottish economy, and provide opportunities to ensure that everyone can benefit from growth. The Strategy highlights the importance of sustainable investment and identifies the need to:

- Invest in Scotland's people at all stages of life to ensure that we have a well-skilled, healthy and resilient population and an innovative, engaged and productive workforce;
- Provide the physical and digital connectivity needed to ensure that all of Scotland is open to the national and global economy and is able to access high quality public services;
- Invest in Scotland's infrastructure to help Scottish businesses to grow, innovate, and create good quality employment opportunities;
- Prioritise our investment to ensure that Scotland protects and nurtures its natural resources and captures the opportunities offered by the transition to a more resource efficient, lower
- carbon economy; and Invest in strengthening the success and resilience of local communities.

The 'Investment' priority is most closely aligned with the business environment and infrastructure foundations identified within the UK Industrial Strategy (although the 'Internationalisation' priority also overlaps with the business environment foundation and the education and skills element of the Investment priority would fall under the 'people' foundation):

The United Kingdom has a global reputation as a good place to do business. A new business starts up every 75 seconds, and we are home to five of the top 10 fastest-growing businesses in Europe. People looking to grow or relocate a business come to Britain confident in our high corporate standards. The OECD ranks us as one of the best places to start and grow a business; we have the most competitive tax rates and we are welcoming to global talent and disruptive start-ups.

Our challenge is to improve how we spread the best practice of our most productive businesses. We are one of the world's great financial centres, yet growing businesses sometimes face difficulty in accessing finance.

Our managers are, on average, less proficient than many competitors, and we should make better connections between high-performing businesses and their supply chains.

Our Industrial Strategy aims to make Britain the best place to start and grow a business, and a global draw for innovators. We will drive productivity in businesses of all sizes by increasing collaboration, building skills and ensuring everyone has the opportunity of good work and high-paying jobs. We will ensure the financial sector is better connected to the rest of the economy, driving impactful investments. We will create a business environment equipped for the challenges and opportunities of new technologies and ways of doing business

We must make sure our infrastructure choices not only provide the basics for the economy, they must actively support our long-term productivity, providing greater certainty and clear strategic direction. Our investment decisions need to be more geographically balanced and include more local voices. We can improve how we link up people and markets to attract investment, and we must be more forward-looking in respect of significant global economic trends.

Through our Industrial Strategy, the country's economic geography will be transformed by a surge of infrastructure investment heralding a new technological era.

We will build a Britain that lives on the digital frontier, with full-fibre broadband, new 5G networks and smart technologies. We will create a new high speed rail network that connects people to jobs and opportunities, regenerate our stations and airports, and progressively upgrade our road network. And we will improve people's lives where they live and work, with high quality housing and clean, affordable energy. Providing the right infrastructure in the right places boosts the earning power of people, communities and our businesses.

The European Regional Development Fund and the European Social Fund have been major sources of investment in education and skills, infrastructure including digital infrastructure, resource efficiency and low carbon and communities and local assets, although infrastructure investment was more flexible in the earlier programme periods, before eligibility issues restricted investment opportunities. Infrastructure investment previously focused on major development locations with economic potential. In more recent years the focus has switched to low carbon infrastructure.

Example Projects

Education and Skills

- **Workforce Development –** funding for workforce development is held by Skills Development Scotland and the Scottish Funding Council. Activities include expanding the Modern Apprenticeship programme, developing new work-based learning models, and providing additional college places to respond to skills needs and shortages.

- **The University of Stirling's Leadership Development Programme –** a collaboration between the local business base and the University's Management School, the programme is delivered through active learning workshops, helping ambitious and innovative SMEs to develop their next generation of business leaders. Funding is from Business Gateway and ERDF.

Infrastructure and Business Locations

- **International Financial Services District (IFSD), Glasgow –** Glasgow City Council in partnership with Scottish Enterprise and other stakeholders secured £3.5m ERDF funding from the 2000-2006 programme to support the development of a purpose built office location to attract businesses in the financial and business services sector. Launched in 2001, the IFSD was originally the catalyst for regenerating the Broomielaw and the west city centre area. It has since expanded to cover a much wider area of Glasgow city centre and has evolved to become the 'brand' for Glasgow's financial and business services community.

- **Dundee's Waterfront Development –** the £1bn transformation has been one of Scotland's economic success stories of the past twenty years. The project is a 30 year programme to transform Dundee's City Centre into a world leading waterfront destination for visitors and businesses through the enhancement of its physical, economic and cultural assets. So far the programme has created approximately 7,500 Full-time Equivalent (FTE) jobs for Dundee and the wider economy. ERDF funding played an important early role in improving the road infrastructure in the Waterfront area, unlocking subsequent private sector funding.

- **The Scottish Partnership for Regeneration in Urban Centres ("SPRUCE") –** a JESSICA fund which provides funding for regeneration, property and sustainable energy projects, made up of Scottish Government and ERDF funding. SPRUCE contributed £9.6m to the total £29.5m cost for the preliminary phase of works at 'The Haymarket' development in Edinburgh. The overall £200m Haymarket development transformed the derelict former goods yard into a 650,000 sq ft multi-purpose development, regenerating the area, and is expected to create 3,500 jobs by 2021.

Digital

- **NGA Broadband Infrastructure –** Scotland has invested significant sums of ERDF in improving the broadband infrastructure across the country and bringing connectivity to the 'notspots' which are not commercially viable for private sector providers. Around £14m was invested under the 2007-2013 programme, just over 7% of total project costs. In the current programme, the focus is on improving connectivity in the remote and rural areas of the Highlands & Islands, with the Scottish Government having secured a further £20m towards broadband infrastructure.

Business Investment

- **Business Gateway services and other business support –** funding secured from the ERDF has enabled local areas to enhance the core Business Gateway offer with more bespoke services responding to local needs. In addition, significant amounts of Structural Funds have been awarded to Scottish Enterprise to fund business support activity (£56m between July 2015 and June 2019). The funding is incorporated into specific services to companies aimed at delivering sustainable economic growth, targeting internationalisation, innovation, low carbon transition, and investment support.

- **SME Holding Fund –** £40m ERDF funding from the 2014-2020 programme has been matched with £60m of public and private sector funding, and is expected to lever in a further £150m, creating a £250m investment pot. The SME Holding Fund will support projects which increase business growth and competitiveness, and fund research and development into innovative new products and services. SMEs can obtain finance from the fund for projects which would be deemed too risky by many retail banks, ranging between £25,000 - £100,000 as well as equity investments of up to £2m.

Natural Capital, Low Carbon and Resource Efficiency

- **Resource Efficiency Circular Economy Accelerator Programme, Zero Waste Scotland –** Zero Waste Scotland secured £30.7m in ERDF funding from the 2014-2020 programme to address SME waste management and resource efficiency through the principles of the circular economy. As a national, rather than city-led programme, a total of £73m will be invested in supporting SMEs to adopt a circular economy approach, with the Scottish Government providing the remaining funding. A Circular Economy Innovation Fund has been created to stimulate and support the development of new business models, products, services and infrastructure, and aims to support approximately 2,200 businesses and 450 third sector organisations, generating £100m of economic benefits.

- **Green Infrastructure Fund and Community Engagement Fund –** Scottish Natural Heritage secured £14.7m ERDF funding from the 2014-2020 programme to facilitate the development of more green spaces within Scotland's urban centres and cities with a focus on key areas where there are high levels of multiple deprivation. The programme aims to introduce a series of new 'green' and 'blue' spaces such as woodlands, playing fields, rivers and streams, and has already delivered a number of projects. One example is the redevelopment of a former golf course in Glasgow, which had been derelict for some time, into a park for the local community. Another example, part funded by the ERDF, is a green infrastructure project at the Middlefield housing estate in Aberdeen.

- **Low Carbon Infrastructure Transition Programme –** another national programme, the LCITP was delivered by the Scottish Government between 2015 and 2018 with the aim of stimulating the development of new energy efficient infrastructure projects. The Transition Programme secured £12m ERDF from the 2014-2020 programme towards a total fund value of £43m, and has supported thirteen different projects around Scotland. For example, Celtic Renewables received £9m for 'Project Alchemy'. Other projects located within the Scottish Cities include one introducing heat pumps to provide sustainable and cheap energy in deprived parts of Glasgow, a renewable heat demonstration project in Stirling, district heating systems in Glasgow and Clydebank, and a low carbon district energy hub in Dundee.

- **The Low Carbon Travel and Transport Fund –** a Strategic Intervention delivered by the Energy Saving Trust on behalf of Transport Scotland. It is funding several projects, including the Broxden Low Carbon Transport Hub in Perth. The Transport Hub received over £700,000 in ERDF funding to create an innovative, low carbon transport hub at a key strategic site on the outskirts of Perth at Broxden Park and Ride. Other projects being funded through the SI include a low carbon/active travel hub planned for Dundee Waterfront and the parking project in Dundee which also includes solar panel charging for EV in multi-storey car parks across the city.

Conclusion

The 'Investment' priority covers a wide variety of activity and accounts for a high proportion of total Structural Funds investment in Scotland. Many of the investments made have had or will have long-term impacts, with the transformation of Glasgow and Dundee city centres catalysing significant private sector investment and creating the conditions for significant jobs growth.

Although there have been challenges in implementing the resource efficiency / low carbon activities (with some potential project sponsors finding it difficult to design low carbon projects which both meet needs and fit with ERDF funding rules, and some projects which represent new ways of working / have innovative elements experiencing considerable delays in progressing from initial project idea to grant funding agreement), the ERDF funding has reduced the risk of investing in some new technologies and acted to catalyse sustainable investments in City level.

Scotland's Economic Strategy Priority: Inclusive Growth

Scotland's Economic Strategy gives equal weight to boosting competitiveness and tackling inequality. There is a clear link between developing a more cohesive economy that improves opportunities, life chances and wellbeing, and economic performance over the long term. The nature of economic growth and the extent to which all can benefit from it has profound consequences for the development of Scotland's communities and the wellbeing of individuals. The Economic Strategy highlights the need to:

- Promote Fair Work and build a labour market that provides sustainable and well-paid jobs;
- Address long-standing barriers in the labour market so that everyone has the opportunity to fulfil their potential;
- Tackle cross-generational inequality through, for example, improved child care, boosting attainment and early years interventions that give every child a fair start in life; and
- Realise opportunities across Scotland's cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country

There is a degree of alignment with the UK Industrial Strategy, which sets out the importance of people and human capital in increasing UK productivity, including narrowing disparities between communities in skills and education and removing barriers faced by workers from underrepresented groups in realising their potential. The Industrial Strategy highlights the strength of the UK labour market - but it is important to note that not all parts of the UK are experiencing record high levels of employment (the rate has fallen slightly in Scotland over the past year), and many places have low wages levels, and high levels of economic inactivity, with Dundee and Glasgow both facing a combination of low wages and low employment rates[10].

"The United Kingdom has one of the most successful labour markets in the world. Our employment rate is at a near historic high – one of the fastest post-recession rates relative to other major economies. It is underpinned by a world-class higher education system, the first choice of students and researchers around the world. Employers are ever more closely involved in the system, and we are committed to delivering three million apprenticeship starts by 2020.

But we still face challenges in meeting our business needs for talent, skills and labour. In the past, we have given insufficient attention to technical education. We do not have enough people skilled in science, technology, engineering and maths. We need to narrow disparities between communities in skills and education and remove barriers faced by workers from underrepresented groups in realising their potential.

We will ensure that everyone can improve their skills throughout their lives, increasing their earning power and opportunities for better jobs. We will equip citizens for jobs

10. Poverty in Scotland, JRF, October 2018. Dundee and Glasgow both feature in the list of local authorities with the lowest score on a combined index of lower-quartile pay and employment 2015-2017. Dundee having weekly pay of £362.6 and an employment rate of 64.4% whilst Glasgow has weekly pay of £381.7 and an employment rate of 65.8%.

shaped by next generation technology. As the economy adapts, we want everyone to access and enjoy good work. We will put technical education on the same footing as our academic system, with apprenticeships and qualifications such as T levels. We will continue to support teaching in our schools, flexible career learning and other measures to transform people's life chances."

The European Social Fund accounts for just under half of the Structural Fund allocation to Scotland for the 2014-2020 programme period. It has been a major sponsor of skills and employablity for many years, and has addressed the need to support those most distant from the labour market. It has had a considerable impact on key target groups, including the young people affected by unemployment. Some ESF can also be used for higher level skills development, e.g through the Scottish Funding Council's Developing Scotland's Workforce programme, which provides funding for skills development at SCQF level 5 and above and aims to provide higher level skills to support the development of emerging growth areas and address regional skill gaps and shortages associated with key employment sectors. The importance of this type of upskilling and re-skilling activity is growing as skills needs change within the labour market, and this will be an important area of activity for the SPF to fund.

Example Projects

As with many of the projects identified above, much of the ESF funding used to deliver inclusive growth is held by national organisations in Scotland, although some funding has been allocated to local authorities to support employability. Concerns were raised about the allocation mechanism for this locally-distributed ESF, with high levels of unemployment not necessarily resulting in the highest allocation, once other factors such as rurality were taken into account. This point highlights the challenges in devising an allocation mechanism which is both fair and robust and will need to be addressed as part of the process of designing the SPF allocation mechanism.

- **Youth Employment Initiative –** although geographically targeted on South West Scotland, given high levels of need, this funding is held by the Scottish Funding Council. Circa £40m of ESF funding is being used to support young unemployed people, those at risk of social exclusion, and young people in marginalised communities. Funding is providing employer incentives to take on young people, removing barriers to work and study, and ensuring additional college places are available, aligned to local labour market needs.

- **Employability Support –** Employability Pipeline programmes are operating across Scotland, providing enhanced support for those facing multiple barriers to employment to access and sustain good quality work. Support is generally tailored to the needs of each individual, including skills support to leave people better placed to access employment. For example, the Stirling Skills and Employability Pipeline (SSEP) secured £471,000 of ESF to provide a client-centred customised provision targeting those with multiple barriers to employment.

- **Social Inclusion and Poverty Reduction –** Local Authorities across Scotland have accessed ESF to deliver programmes to tackle poverty and promote social inclusion. The BIG Lottery Fund has also secured nearly £7m of ESF under the current programme to deliver financial inclusion support. Activities include increasing financial literacy to support the transition to sustained employment in Edinburgh, supporting individuals who are furthest from the labour market in Perth and Kinross, and providing registered childcare for children with a disability or health condition in Stirling, to enable their carers to enter employment.

- **Glasgow Works –** an employability programme that initially ran from 2008 and 2011, it provided a 'whole needs' approach to address the issues and barriers faced by workless and disadvantaged people to help them progress towards and move in to employment. The 2008-2011 GW Programme received £10m of ESF monies, towards £23m total eligible costs. The Glasgow Works II programme received £684,483 through ERDF and included a job brokerage service to identify vacancies and work with employers to provide clients with better opportunities to gain and sustain employment. It also included a childcare refurbishment programme to increase the number of childcare places available and accessible to the Glasgow Works priority groups.

- **LEAPS (Learning, Employability and Progression in Stirling) –** an employability project which secured £770,443 of ESF to offer targeted support and training to help local people find work, gain qualifications or move in to further education.

- **The Apex Ascend programme in Inverness –** received £461,900 from the ESF 2007-2013 programme for the Ascend Project which was designed to increase opportunities for ex-offenders and people at risk of offending to find work and was targeted at people with complex needs. It gave those taking part the opportunity to gain qualifications, improve their job searching skills and to increase their levels of confidence and motivation.

- **Intowork Project –** funded by £270,900 from the ESF, the project operated across Edinburgh, East Lothian and Midlothian to provide dedicated support for those suffering from mental health issuesordisabilitiestofindemployment. The ESF grant ensured dedicated time could be spent with clients and support could be tailored specifically to their individual needs, increasing chances of sustaining long-term employment.

Conclusion

The scale of ESF support for training and employability activities in the Scottish Cities has assisted tens of thousands of people, each year, to access employment and update and improve their skills. This has included consistent support to help younger people access better employment opportunities through a more relevant skills offer which reflects local needs and opportunities.

Through their social inclusion programmes, the Scottish Cities have led the way in using ESF to provide support to those most distant from the labour market and with complex challenges in taking up employment opportunities. This reflects the large number of people with no or limited qualifications and with no or very limited work experience. In the current programme, the Scottish Funding Council has used ESF to provide additional further and higher education places to address regional skills gaps and develop higher level skills. There is an on-going need for people to gain higher level skills and progress once they enter employment, and it is important that SPF is able to support this type of activity.

Scotland's Economic Strategy Priority: Internationalisation

Scotland's Economic Strategy highlights the importance of international links to Scotland's economic success. The global economy provides opportunities for trade, the potential to attract inward investment, and the potential to share skills and expertise, learn new ways of working and collaborating with others to support innovation and sustainable economic growth. The Economic Strategy seeks to create an environment in which international opportunities are better understood, and to have greater influence globally on the issues that matter to Scotland. The Strategy highlights the need to:

- Support Scotland's exporters to grow into new markets and expand their presence in key traditional markets such as the EU and North America;
- Encourage a more export-orientated focus across all businesses and sectors in Scotland, and in particular amongst our small and medium sized enterprises;
- Create the underlying conditions which will continue to make Scotland a major destination for investment;
- Use Scotland's influence in Europe and, more widely, to support our international ambitions and continue to make the case for Scotland to remain a member of the EU;
- Promote Scotland's international brand, and showcase both Scotland and Scottish goods and services internationally and secure major international cultural and sporting events; and
- Publish an International Framework, which will set the context for how the Government, its Agencies and Public Bodies engage externally to promote Scotland – its economy and broader interests – and influence the world around us.

There is no equivalent priority within the UK Industrial Strategy, although the Strategy is '*avowedly international*'. It highlights the importance of international collaboration in research, and the need to attract the most skilled people from across the world to the UK's labour market, as well as supporting businesses to access international markets, encouraging inward investment and supporting UK businesses to grow through overseas investment.

Example Projects

Many of the business growth projects highlighted under the Investment priority include supporting businesses to grow through exports, although this tends to be as part of a wider programme of growth activity. Scottish Development International is the lead body but works with national and local partners to promote exports and inward investment.

The Importance of Place

Both Scotland's Economic Strategy (within the Inclusive Growth priority) and the UK Industrial Strategy (as one of the five foundations of productivity) highlight the importance of place, and the need to ensure all parts of Scotland / the UK are realising their economic potential. 'Place' is multi-faceted, and covers both the infrastructure of a city – as a whole and within local communities – and the 'softer' side of place: marketing, promotion and shaping perceptions, both of the local population and of potential visitors:

The United Kingdom has a rich heritage with world-leading businesses located around the country. Our cities, towns and rural areas have competitive advantages that will be essential to shaping our economic future. Yet many places are not realising their full potential. The UK has greater disparities in regional productivity than other European countries. This affects people in their pay, their work opportunities and their life chances.

Every region in the UK has a role to play in boosting the national economy.

We are working with our partners in the devolved administrations to deliver ambitious plans for communities across Scotland, Wales and Northern Ireland. We will also continue to build the Northern Powerhouse and Midlands Engine to help create prosperous communities throughout the UK.

The Industrial Strategy focus on Place emphasises the role of partnerships and leaders to drive productivity growth. The Scottish Cities vary considerably in their scale and the state of development of their governance arrangements.

Glasgow	Glasgow City Council manages an annual budget of £2.3bn and has a work force of some 26,000 staff. The Council is responsible for the oversight of significant sums of external funding, with nearly £1bn invested in housing over the past 15 years, and c. £345m of Structural Funds projects undertaken in the city since 2000. The wider city region (covered by the Glasgow City Region deal) covers seven other local authority areas, and partners have been working together for the past four years to agree regional economic priorities and develop a regional approach to tackling them. The leaders of these local authorities meet in a City Region Cabinet, established to oversee the use of the £1bn city region deal funding which has been allocated to the area.
Edinburgh	Edinburgh City Council manages an annual budget of £1bn, and has a work force of some 15,000 staff. The £1bn budget for 2019/20 has a focus on high quality services and education, including a split between refurbishment of schools (£67m), provision of early years services (£59m), resurfacing the roads (£30m) and street lighting (£11m) to name a few. The wider city region covers five other local authority areas, East and West Lothian, Midlothian, Fife and Scottish Borders. The city region partners agreed a £1.3bn growth deal with the Scottish and UK Governments in summer 2018, and are in the process of developing a regional economic partnership to oversee the investment being made. A private sector-led Regional Enterprise Council is working with public sector and third sector partners to ensure the investment opportunities are maximised.
Aberdeen	Aberdeen City Council manages an annual budget of £684m and has a work force of some 8,000 staff. The Council has set in place a 10 year strategy to enable Aberdeen to become a creative lab for Scotland, being able to generate creativity and new industries in the local area. Moreover, the Local Development Plan 2017 outlines a vision to improve the number of jobs in the Council area and improve the quality of communities with new green spaces and facilities. The wider city region covers the rest of Aberdeenshire, and has benefitted from the £250m City Region Deal in 2016. The city deal provided a focus on developing a world leading oil and gas centre to support the North East, Agri-food and nutrition hub and the Bio-Therapeutic Hub for Innovation to act as an incubator for SMEs and research. The deal also includes improvements to infrastructure such as digital connectivity in the surrounding rural areas and improves to a number of A roads..
Inverness	Highland City Council manages an annual budget of approximately £616m and has a workforce of some 10,000 staff. The Inverness City Region covers both the Inverness and Highland areas, and a £315m City Region Deal was signed in January 2017. The main aims of the city deal are to invest into good quality homes and infrastructure to attract investment from businesses and tourists to generating jobs in the area. Two projects under this City Deal include the roll out of new Wi-Fi in Inverness City Centre and the Life Science Centre based at Inverness College, part of the University of Highlands and Islands.
Dundee	Dundee City Council manages an annual budget of just over £350m and a workforce of some 7,300 staff. The wider city region covers three other local authority areas, Perth and Kinross, Angus, and Fife and are part of the £700m Tay Cities Deal. Published in 2018, the deal includes £60m towards the James Hutton Institute for R&D into food security in addition to support for the International Barley Hub (and associated whisky industry). Further investments include £25m to support the development of the regional life sciences sector, £11.7m for the

	development of a cyber security centre at Abertay University, Dundee and £26.5m towards St Andrews University's Eden Campus. The plan also features £37m to go towards making the region a top tourism destination and £15m funding to improve the Bus and Rail Interchange.
Perth	Perth and Kinross Council manages an annual budget of £336m and has a workforce of some 5,600 staff. The Perth and Kinross Corporate Plan 2018-2022 outlines a strategy for the Council to improve child life outcomes through social and child care and education in addition to a more sustainable economy and supporting people in safe and healthy active lives. Perth and Kinross Council forms one of the five local authorities within the Dundee City Region, and therefore part of the Tay Cities Region Deal. This includes £10m for cultural investment through the Perth City Transformation Project and £5m for the regional logistics, fulfilment and business innovation park at Perth West.
Stirling	Stirling City Council manages an annual budget of £264m and has a workforce of just under 4,500 staff. The wider city region includes Stirling Council, Clackmannanshire Council and The University of Stirling, who together signed the £92m Stirling City Region deal. Over the next 15 years, the deal aims to drive inclusive growth across the region, creating thousands of new jobs and significantly growing GVA. The deal includes the development a new Tartan Centre for Scotland, a new Aquaculture Innovation Hub at the University of Stirling and delivery and development of more land for business and housing to accommodate the region's growth.

Conclusions

Although a diverse group, the Scottish Cities and City Regions have led the way in terms of City Region Deals working closely with Scottish Government and business groups and are now regional economic partnerships to maximise the opportunities and impact on the regional economy.

The Scottish Cities and their City Regions are putting in place robust plans and delivery capacity. Many already run major employment and training programmes, and deliver Business Gateway services. Some have established appraisal, assurance and decision-making procedures in place, as well as experienced and senior staff in post to manage and administer major funding streams.

Building on the Track Record of the Scottish Cities

The Scottish Cities are central to the successful delivery of the Scottish Economic Strategy and the UK Industrial Strategy. They provide a strong link between national sector plans and agreements and local industry specific investment and support. Overall, the seven Scottish Cities and their regions offer:

- an appropriate spatial scale, albeit that some are larger than others;
- plans and strategies that take account of and respond to local needs within a national framework;
- assets and activities already supporting a range of Local Economic Strategies;

- capabilities and processes in place to support funding allocation, management and monitoring;
- collaborative working with industry and an integrated approach to enterprise and skills; and
- an integrated, place-based approach to future funding and investment.

The major successes from Scottish Cities Structural Funds investment which relate to strengthening the foundations of productivity include:

- Support for the development of world-leading research innovation facilities to support the transformation of city economies and their regions;
- Support for the re-development / creation of new business facilities and districts and city centre improvements;
- The establishment of Financial Instruments to support investment in businesses and business locations, in a manner which generates recycled funding which can be re-invested to maximise impact;
- Using ESF funding to enhance and add value to national programmes;
- Place-based approaches where funding is focussed on those most in need within a particular community and aligned with investment to support employment creation; and
- Providing wrap-around support to bring together a number of individual employment support and social inclusion programmes including tackling in-work poverty.

The implementation of UKSPF and City Region Deal and Local Economic Strategies will be accelerated through building on the assets and plans of the Scottish City Regions.

4

Limitations of Structural Fund Approach

"The Scottish Cities should work to secure Ministerial commitment to move away from short-term and siloed funding pots to a flexible single pot of funding to support a more holistic approach to delivering inclusive growth."

Over the three programme periods between 2000 and 2020, the range of activities eligible to be funded through Structural Funds has narrowed and investment available for important aspects of regeneration and infrastructure has been restricted. There have been numerous changes to the way in which funds are allocated, managed and monitored and how decisions regarding projects are made which have had the effect of limiting the impact achieved through Structural Funds. Officers from the Scottish Cities local authorities identified a number of limitations in the current approach to using Structural Funds within Scotland which it is vital are avoided in the approaches developed for the UK SPF. These included:

- A reduction in the Scottish Cities' ability to invest in economic infrastructure compared to previous programmes. This includes commercial premises, including grow-on space for businesses supported under the Business Gateway programme, and incubator space for new start-ups, which were highlighted as issues by a number of cities. This not only undermines the impacts of other investments made through the Structural Funds, but also makes it difficult to provide a holistic programme of economic development activity through Structural Funds.

- It also features investment in public transport infrastructure. Connecting people to jobs across the Scottish Cities geographies is an important part of the approach to fostering inclusive growth. However, the funding which is available for transport infrastructure under the current programme is focussed on low carbon infrastructure which, whilst important, has fewer immediate impacts on improving people's lives than more traditional transport investment would have.

- Restrictions also apply to place-making activity, including marketing and tourism projects, which cannot be funded through the current programme, even when they would benefit key growth sectors such as cultural and creative industries.

- Although the City Region Deals will help to address this, it will take time for these to come on-stream and channel investment into the areas where it is most needed.

The processes used to manage and monitor Structural Funds have also acted to limit their effectiveness:

Centralisation and Delivery Silos
The 2014-2020 Structural Funds programmes have been closely aligned with the Scottish Economic Strategy. Whilst this brings coherence at national level, flexibility to respond to local circumstances has been reduced, with the Scottish Cities having less influence over priorities and decision-making than in previous programmes (when advisory groups assessed and made decisions on potential projects). The use of Lead Partners to lead on specific Strategic Interventions (SI) has further reduced local influence over what is funded, contributed to a 'silo' approach to delivery and undermined local efforts to join up multiple investments in holistic packages of economic development activity. Strategic Interventions are being led by a large

number of different bodies, many of which operate at national level and have limited knowledge of and involvement at a local level.

There is also a lack of transparency in the process through which projects are developed and approved. Some of the SI lead partners and the Managing Authority as a whole have limited awareness or engagement across all sectors. In previous programmes, the decision-making process was clear, transparent and managed centrally (to the programme). In the current programme, each SI lead partner has its own processes, and programmes of activity are being managed by organisations which in some cases have relatively little experience of EU funding.

The use of lead partners who sit between the applicant and the Managing Authority (MA) adds a layer of bureaucracy for projects and means there is no direct contact with the MA. This can lead to miscommunication of issues and responses. There is a need for future processes to be more streamlined.

Match Funding

The requirement to provide match-funding at individual project level has proved increasingly problematic due to reduced public-sector budgets during a period of austerity and the ring-fencing of funds for specific functions, which has not led to the prioritisation of economic development activity.

Match-funding requirements have acted to limit the number and range of organisations which are involved in delivering Structural Funded activity, with many smaller organisations unable to get involved, even when they are well-placed to deliver the type of activities envisaged, as they are unable to commit the required level of match-funding. Difficulties over using staff time as a contribution towards a project, for those who do not work full-time on Structural Funded activities, also presents a challenge.

The Scottish Government has attempted to address this by moving to annual match-funding commitments, which has brought more flexibility but to some extent at the expense of certainty about the sustainability of the intervention. Re-profiling project budgets annually overcomes the issue of being unable to guarantee all match-funding up-front but requires significant investment of project management time which could be better spent in ensuring high quality and impactful delivery.

Overall there are mixed views on match-funding. Some see it as causing unnecessary difficulties for those trying to put together funding packages for projects, even when these are identified as strategic priorities, and think that there should be an expectation that funding will be levered in through the use of SPF, but that this should not be a requirement. Others believe that a requirement for some level of match-funding is positive, as it forces project sponsors to focus on deliverable projects for which there is a real demand, but would be keen to see greater flexibility around intervention rates.

Monitoring, Compliance and Audit
The Structural Funds are subject to increasingly onerous monitoring, compliance and audit requirements. This goes beyond what is required to ensure public money is spent effectively, and has resulted in some activities becoming unworkable. This affects all projects across both ERDF and ESF, and imposes significant burdens on project sponsors and their staff. Particular issues were raised in relation to the targeting of support on those with chaotic lifestyles or who are most vulnerable, with verifying eligibility of those who are most excluded particularly difficult. These groups are least likely to have a passport or driving licence, but when self-declaration is no longer acceptable, it is difficult for organisations to bear the risk of working with such people because of the potential that they will be unable to draw down the costs they have incurred if eligibility cannot be verified to the satisfaction of the Managing Authority. There is evidence that it discourages some (smaller, voluntary sector) organisations from getting involved in delivery, with contracts not being let in some cases, and project activity (which has been identified as a priority for funding) not proceeding.

Concerns were also raised about the role of the Managing Authority, as both the auditing / verification body and the body which assesses applications. Under the previous programme, ESEP Ltd acted as an Intermediate Administrative Body, creating 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 provides transparency, and should be part of the structure put in place for the SPF in Scotland.

A greater use of national programmes has also meant that delivery organisations which cannot deliver nationally can be excluded from delivering at all, even when they have strong local capacity, compounding the loss of local focus.

Relationship with the Managing Authority
In a complex funding environment such as the Structural Funds, the relationship with the Managing Authority can be crucial to the management of risk, identification of agreed strategic priorities and effective implementation and project delivery.In the current programmes, the role of the Managing Authority has become more transactional, with little engagement with the Managing Authority at the development stage.

The relationship with the Managing Authority is much more heavily weighted towards contractual matters: claims, providing evidence, requesting changes to projects etc, and therefore tends to be less supportive than in previous programmes. Particular issues have been highlighted regarding the EUMIS system and issues with verifying claims leading to delays in payment which can cause problems for project managers. Different IT systems are used within ESIF, with the EUMIS system for ESF/ERDF, and different systems for LEADER (LARCS) and EMFF. The key transnational programmes with which local authorities engage, namely INTERREG and Erasmus+, again have different systems.

Consultees reported that some of these systems are better than others, with the EMFF IT system managed by Marine Scotland often cited as an example of good practice. Experiences with EUMIS and LARCS have not been as favourable. Differing systems also cause confusion for local authority finance departments, 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. This system should not be overly complicated and testing should ensure it is fit for purpose.

Approach to Risk

The precautionary approach to risk amongst programme managers, which, combined with the risk to applicants if projects do not deliver as intended, has led to a lack of innovation in the delivery of Structural Funds programmes, with applicants sticking with 'tried and tested' approaches, even where these might not be as effective as other, newer models.

Summary

In summary:

- A narrowing of eligibility rules has seen a reduction in the Scottish Cities' ability to invest in economic infrastructure compared to previous programmes;
- Prescriptive allocations of monies to particular pots undermines the impacts of other investments made through the Structural Funds, but also makes it difficult to provide a holistic programme of economic development activity;
- Restrictions also apply to public transport infrastructure and place-making activity, including marketing and tourism projects, even when they would benefit key growth sectors such as cultural and creative industries.
- The increasing burden of both the application process and audit requirements, beyond what is required to ensure public money is spent effectively, has resulted in some project activities becoming unworkable and led to a lack of innovation in the delivery of programmes.

Although the City Region Deals will help to address this, it will take time for these to come on-stream and channel investment into the areas where it is most needed. The Scottish Cities should work to secure Ministerial commitment to move away from short-term and siloed funding pots to a flexible single pot of funding to support a more holistic approach to delivering inclusive growth.

The Government and partners should agree a simplified appraisal and decision making system, proportionate to the funding and activities, reducing the bureaucracy which has crept into the process. It should also look at wider outcomes of economic growth as key measures for return of investment if cities are to support those hardest to engage in the labour market more successfully.

5

Addressing the Productivity Gap and Rebalancing the Economy: The Contribution of Scottish Cities

"It is vital that the Shared Prosperity Fund, the UK Government's flagship intervention to support the narrowing of regional inequalities, is properly resourced, correctly targeted and appropriately managed within Scotland to secure the best possible outcomes for the whole country."

In spatial terms, the UK is one of the most unequal of all the developed economies[11]. GVA per head in Scotland as a whole is below the UK average (£25,485 compared to £26,749 in the UK[12]). The Scottish Cities are an extremely diverse group, in terms of size, economic function and economic performance. Whilst on average the Scottish Cities have a higher level of GVA per head than Scotland as a whole, there are significant differences between the cities, with levels ranging from 63% to 174% of the Scottish average[13]. This disparity has a major impact on wages, household incomes and shared prosperity.

If productivity levels in Scotland (GVA per full-time equivalent employee) matched the UK average, output would increase by some £9-10bn, less would need to be spent on unemployment and health-related benefits, and more people in work earning higher incomes would generate extra tax revenues which could be spent on national priorities.

Addressing this challenge will not be easy and the gap has widened rather than narrowed in recent years. It is therefore vital that the Shared Prosperity Fund, the UK Government's flagship intervention to support the narrowing of regional inequalities, is properly resourced, correctly targeted and appropriately managed within Scotland to secure the best possible outcomes for the whole country.

Rebalancing the Scottish Economy

Rebalancing the economy is a major priority for the UK Government and the key to significantly increasing UK productivity, and will be a major focus for the Shared Prosperity Fund. Tackling inequality is also a high priority for the Scottish Government. The table below sets out how the Scottish Cities compare to the UK average for GVA per filled job.

Scotland Regional Economic Imbalance — **GVA/filled job 2016**

Higher Productivity			**Lower Productivity**		
NUTS 3 area	GVA/ filled job	+ National Average (UK = 100)	NUTS 3 area	GVA/ filled job	+ National Average (UK = 100)
Aberdeen City and Aberdeenshire	116.7	16.7%	East Dunbartonshire, West Dunbartonshire and Helensburgh and Lomond	96.0	-4.0%
Edinburgh, City of	111.6	11.6%	Angus and Dundee City	93.0	-6.6%
Inverness & Nairn and Moray, Badenoch and Strathspey	102.0	2.0%	Inverclyde, East Renfrewshire and Renfrewshire	92.6	-7.4%
Perth & Kinross and Stirling	101.1	1.1%	Glasgow City	91.5	-8.5%
			East Lothian and Midlothian	91.2	-8.8%

Source: 7 Cities Summary, Scottish Government, https://www2.gov.scot/Resource/0054/00545460.pdf
Note – data on GVA per filled job is not available for the TTWA geographies. As per the 7 Cities Summary report, this table contains data for the nine NUTS 3 regions containing the seven cities.

11. Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK, Prof Philip McCann, January 2019.

12. 7 Cities Summary, Scottish Government, Jan 2019, and ekosgen calculations.

13. 7 Cities Summary, Scottish Government, Jan 2019, and ekosgen calculations.

Growth in Population and Working Age Population
The Scottish Cities make up seven of the twelve largest population centres in Scotland[14]. In 2017, the population of the Scottish Cities was 3.2 million, 58.5% of Scotland's total, and at city region level, a higher proportion of the population is of working age (65%) than is the case nationally (64%). The diversity amongst the cities is evidence, with Glasgow and Edinburgh together accounting for over 36% of Scotland's total population, whilst the remaining five cities account for 21.5%.

The vast majority of population growth in Scotland since 2011 has been within the Scottish Cities, which account for 94% of the 124,900 increase. Six out of the seven have seen population growth which matched or was faster than the Scottish average since 2011, with the exception being Dundee. The Scottish City Regions have experienced faster growth in the working age population than Scotland as a whole over the past ten years, +4.1% compared to +2.8% nationally.

Employment and Growth Success
The Scottish Cities have an employment base of 1.64m jobs accounting for 63.5% of all jobs in Scotland. A higher proportion of full-time jobs are located in the Scottish Cities (65.6%). In the most recent year for which data is available (2017), jobs growth in the Scottish Cities accounted for two-thirds of all the new jobs in Scotland compared to one year earlier[15]. Edinburgh was the only city to record jobs growth of 1.0% or more, whilst three cities – Aberdeen, Perth and Inverness – saw the number of jobs fall.

The Scottish Cities account for a higher than average proportion of jobs in the service sector, which accounts for 85.6% of jobs, compared to 81.4% in Scotland as a whole. In Edinburgh the share of service sector jobs is particularly high at 91.4% of the total, whilst Aberdeen has a high proportion of employment in the production sector (18.9%), reflecting the substantial oil and gas sector in the city compared to 9.1% across the Scottish Cities as a whole and 12.9% nationally.

The Scottish Cities are home to over 100,000 businesses[16]. Business density levels are very slightly higher than the Scottish average, and the number of businesses has grown more quickly at city level over the past two years than is the case nationally, although growth in Glasgow, Edinburgh and Perth has been offset by a fall in business numbers in Aberdeen. The cities provide a competitive environment which contributes to 'churn' within the business base and therefore drives productivity, with both business birth and death rates above the Scottish average[17].

Despite the strong business base, the employment rate amongst the working age population of the Scottish Cities remains slightly below the Scotland average (74.0% compared to 74.3%), with Dundee and Glasgow having particularly low employment rates (70.3% and 70.6% respectively). Productivity levels also vary considerably, with GVA per job ranging from 116.7% of the UK average in Aberdeen to 91.2% in East Lothian and Midlothian (using the NUTS 3 definition of the Scottish Cities geography).

14. 7 Cities Summary, Scottish Government, Jan 2019, and ekosgen calculations.

15. 7 Cities Summary, Scottish Government, Jan 2019, and ekosgen calculations.

16. Local authority definition, UK Business Counts data, 2018.

17. 7 Cities Summary, Scottish Government, Jan 2019, and ekosgen calculations.

More positively, the Scottish Cities have invested heavily in creating the conditions for accelerated productivity growth, including major investment through Structural Funds and Local Growth Funds.

Inclusiveness Remains a Challenge

Unemployment in the Scottish Cities is slightly higher than the Scottish average, with 4.5% of working age residents unemployed, compared to 4.2% nationally (in the year to September 2018). Considerable variation is again evident, with the unemployment rate of adults aged 16+ in Aberdeen (the worst affected City) twice the level seen in Falkirk and Stirling (6.0% compared to 3.0%, TTWA definition used). Claimant unemployment is distributed differently across the Cities and is heavily concentrated in Glasgow, which accounted for nearly one-quarter of all claimants in December 2018, and 22.2% of young claimants (aged 18-24 years). Claimant unemployment varies not only between the Scottish Cities but within them, with a 7.8 percentage point difference in the rates in the worst and least affected areas of Inverness.

Low pay is a key issue for the UK, with the share of jobs that are low paid remaining well above that seen in many other countries in Europe. In 2018, residents' median weekly wages in four out of seven of the Scottish Cities were below the Scotland average.

The Scottish Index of Multiple Deprivation (SIMD) shows that, with the exception of Glasgow and Dundee, deprivation is less concentrated in the Scottish Cities. The number of Scottish City data zones within the 20% most deprived is 19.8%, whilst in Glasgow 31.6% of datazones are amongst the 20% most deprived and in Dundee the proportion is 23.1%.

Given the weight of disadvantage in these area, Scotland will not make significant progress towards a more inclusive economy and society without addressing the deprivation challenges in the Scottish Cities.

Investing In Scottish Cities:
The Case for a Greater Share of the Shared Prosperity Fund

There are six reasons why significant Shared Prosperity Fund investment in the Scottish Cities will increase competitiveness and tackle inequality, as set out in Scotland's Economic Strategy, as well as contributing towards the objectives of the UK's Industrial Strategy, raising productivity and reducing inequalities between communities:

1. The Cities account for 67% of the output of the Scottish economy, 64% of the jobs, 58% of the businesses and 58% of the population. They are crucial to the future success of Scotland's economy and to driving up levels of productivity.

2. They also contain 56% of Scotland's most deprived communities, 52% of all unemployed claimants and 49% of Scotland's young unemployed people. Tackling

inequality and driving inclusive growth will necessitate a focus on areas with the highest levels of need.

3. The Scottish Cities have accounted for the vast majority of population growth in Scotland in recent years and the role of cities internationally as magnets for young, highly skilled populations suggests that this is likely to continue. As Scotland's population ages over the coming years, it is important to the health of the economy that people of working age are attracted to Scotland, and the Cities have a key role to play in this.

4. As set out in Chapter 3, the Scottish Cities have already successfully invested in the five foundations of productivity, supporting world class research and incubation facilities, developing new economic infrastructure and creating business environments to stimulate new investment and sector growth.

5. The Cities have been leading the way in delivering initiatives to support inclusive growth, and have used ESF and other training funds to provide targeted support to those most distant from the labour market.

6. Through the city region deals, the Scottish Cities, working closely with regional partners, have put in place enhanced governance and delivery capacity which can be used to take forward SPF priorities and city level inclusive growth plans, based on need and opportunity.

The seven Scottish Cities are among the largest population centres in Scotland. Shared Prosperity Fund investment in Scottish Cities could lead to increased productivity, producing higher wages at all levels in the workforce, and contributing to a more inclusive economy across the country.

While a transparent allocation system is required to reflect UK policy, there is an evidence-based case to provide the Scottish Cities with circa 70% of Scotland's allocation of the UK Shared Prosperity Fund.

6

Developing a Shared Prosperity Fund which meets the Scottish Cities' Aspirations

"UKSPF provides an opportunity to re-focus resources on the shared priorities of the Scottish Cities and Scottish Government, driving up competitiveness and tackling inequality through inclusive growth which benefits all of Scotland's residents""

Key Factors

The UKSPF will be resourced within the context of the forthcoming UK spending review and while the starting point in discussions has been providing funding at a level which matches current Structural Fund expenditure, the new fund will have a specific UK remit and the aggregate level of financing made available should reflect its role in terms of UK policy objectives. The Ministerial statement closely linked the UK SPF to the UK Industrial Strategy but stressed that the UK Government will respect the devolution settlements. The Industrial Strategy is being implemented in a context of reserved and devolved responsibilities for the Scottish Economy and no similar commitment has been made regarding the use of SPF in the devolved nations. However, it is still highly likely that the Shared Prosperity Fund will be expected to contribute to the UK Industrial Strategy, tackling inequalities between communities by raising productivity, and with an implied geographical focus on those economies which are furthest behind.

The means by which Shared Prosperity Fund support will be managed and delivered is as important as the finance available. There is an opportunity to move away from the Structural Fund programme approach and its limitations, to more effective arrangements, which take account of how partnerships and policy have changed within Scotland over the past four years.

The key factors which need to be considered when determining the level of resources to be allocated to the SPF are:

- **UK policy driven:** the major change in moving to the Shared Prosperity Fund is that it will be central to the UK Government's economic plans, whereas Structural Funds were an opportunity for the UK to recycle monies paid into the EU budget, to support regional economic development. There is no need to limit the SPF to previous levels of Structural Fund allocations. There is, therefore, a policy-based argument that SPF, as a UK policy priority, should also incorporate previous levels of public sector match funding set out in the various European Programmes. This would in effect, increasing the SPF from circa £1bn per annum to £2bn per annum, as a starting point.

- **Larger fund:** With the Shared Prosperity Fund now expected to play a central role in delivering the Industrial Strategy priorities across the UK, there is a rationale to considerably increase the financial allocation to the new Fund, given the scale of the productivity challenge and the need to rebalance the economy. In part, the need to substantially increase SPF reflects the overall scale of investment through Structural Funds which, though significant, is small when compared to the size of local economies, the drivers and trends which are affecting them, and the scale of opportunities.

- **Seven Year Fund:** SPF should be a seven year Fund, similar to the Structural Fund model, which is widely regarded as the most suitable programming period for economic development investments. Shorter programmes were regarded as inefficient, did not encourage the development of quality proposals, while the regular replacement and re-branding of similar types of initiatives is a source of frustration to practitioners.

These changes to will require the Scottish Government to show a high degree of trust in the ability of the Scottish Cities and their local / regional partners to successfully deliver high quality proposals across the country, with the effectiveness of the SPF considerably increased if accompanied by changes to the appraisal system.

Financial Resources

The UK Government also has the opportunity to increase the funding available to the Shared Prosperity Fund, through a major financial enhancement to take account of SPF's role of delivering the Industrial Strategy. The Scottish Government could also opt to allocate some of its devolved funding to the 'SPF pot'. While any enhancement may lead to Departments "ring fencing" monies for particular activities e.g. innovation, any restrictions should be limited to additional monies.

A UKSPF financial allocation set at current SF levels, is estimated at £134m per annum across Scotland. This would result in very limited resources available at a City / city regional level to rebalance the economy, improve productivity and support inclusive growth. The previous level of EU funding available to Scotland was based neither on need nor opportunity. The UK Government chose to increase Scotland's share of the UK's allocation of EU regional and skills budget for the 2014-2020 programme period, to avoid a significant reduction which would otherwise have occurred (compared to the 2007-2013 period), based on the EU's formula. As such, it is not a rational starting point for determining the resources needed and available to deliver the objectives set for the Shared Prosperity Fund within Scotland.

Structural Fund and SPF Financial Scenarios

EU Structural Funds

Source	Period	UK SF Allocation	Scottish SF Allocation
EU Structural Fund Allocation (€m)	2000-2006	€15,853m	€1,609m
EU Structural Fund Allocation (€m)	2007-2013	€9,891m	€820m
EU Structural Fund Allocation (€m)	2014-2020	€10,795m	€922m

Shared Prosperity Fund: Financial Scenarios; Annual Allocations

SPF – SF Value Maintained	2021-	£1,176m	£132m
SPF – SF Adjusted (to maintain real value of 2014-2020 SF allocation)	2021-	£1,354m	£154m
SPF – SF Value Maintained + SFUK Match	2021-	£2,245m	£226m
SPF Max – LIS Enhanced	2021-	£4,000m	£400m

Source: Operational Programmes, ekosgen calculations

A more realistic level, taking account of UK policy objectives, would be an UKSPF budget of circa £4bn per annum, allowing the Core Cities and Scottish Cities to invest in the key areas of ideas, business environment, skills and place / infrastructure.

These changes would also require (UK and Scottish) Government Departments to show a high degree of trust in local partnerships and could be accompanied by a (temporary) co-delivery model. However the efficiency gains of removing different applications forms, appraisal and eligibility criteria, and decision making timetables and processes would save a considerable amount of unnecessary duplication from the current splintered approach.

Allocating the Shared Prosperity Fund

There is strong support across the Scottish Cities to move to a transparent needs-based allocation system for the UKSPF, although the importance of focussing funding on areas of economic opportunity was also highlighted. While there are challenges in balancing between need and opportunity in a transparent, indicator-based allocation system, and the outcomes of the range of allocations linked to objectives and statistical criteria are unclear at this stage, there is a compelling case based on Scottish Cities' track record of ERDF and ESF investment, agreed local strategies, capacity and ambition to allocate a large proportion of Scotland's UKSPF allocation to the Scottish cities.

A needs-based system needs to take into account rebalancing the economy, closing the productivity gap and creating an inclusive economy, and the role of each city in addressing each of these challenge will differ. Any new allocation system will need to incorporate indicators which reflect these three areas of challenge.

A considerable number of areas across the UK have made the case that there should be no reduction in the current level of Structural Fund allocations across the country. It is only possible to combine this aspiration with a needs-based approach if UKSPF has an enhanced level of funding. If UKSPF is introduced with a financial allocation which only matches previous ERDF and ESF levels, it will not be possible to move to a transparent needs-based allocation system which reflects UK policy objectives.

The UK Government will also have to take a view on the appropriateness of allocating relatively modest amounts of monies to sub-regions where productivity is already high, given the stated focus of the SPF on rebalancing the economy and narrowing the productivity gap.

Delivering the Shared Prosperity Fund

There is a strong consensus and commitment amongst the Scottish Cities to learn the lessons from the Structural Fund Programmes and ensure an improved approach is in place for the delivery of the Shared Prosperity Fund in Scotland. The Scottish Cities have highlighted the benefits inherent in transferring decision-making and control over budgets from central to local government[18], and the Scottish government has

18. Empowering Scotland's Cities: Empowering City Government, May 2016.

recognised the importance of thriving cities to the Scottish economy as a whole. With the advent of regional economic partnerships in Scotland, and the establishment of city region deals covering the seven Scottish Cities, the move towards greater local strategic influence is underway and should be accelerated through the delivery of the Shared Prosperity Fund. The key lessons for delivery of SPF include:

Consultative Approach: Recognising the role of cities as the drivers of the Scottish economy, it is vital that city leaders are involved in shaping the allocation and delivery arrangements of UKSPF in Scotland. A top-down, one size fits all approach which is imposed centrally and does not reflect the different economic circumstances, challenges and opportunities across Scotland risks repeating the disadvantages of the current approach. To avoid this, the cities should have a formal role alongside the Scottish and UK Governments to be involved in shaping how the SPF will operate in Scotland.

Outcome Based: ESF and ERDF have been based on outputs, often using crude metrics which are then regionally applied at the project level. UKSPF should move away from activities and outputs as key measures of effectiveness and value for money to the more relevant and substantive outcomes of investment.

National Framework: Whilst there is likely to be a national framework for UKSPF with higher level strategic direction, objectives and priorities, in Scotland the Scottish Government is likely to want to align this with Scotland's Economic Strategy and plans for inclusive growth. However, this should not set financial allocations, restrict eligible activities or set targets which are then handed down sub-regionally based on financial allocations.

Maximum devolution: Government's default position should be to devolve management and delivery to the Scottish Cities and / or regional bodies with sufficient strategic, management and delivery capacity, with a co-delivery model used for other areas as a transition to introducing full local delivery.

Outcome Based: ESF and ERDF have been based on outputs, often using crude metrics which are then regionally applied at the project level. UKSPF should move away from activities and outputs as key measures of effectiveness and value for money to the more relevant and substantive outcomes of investment.

Local Strategy Driven: UKSPF should be used to boost and extend local strategies, notably the city region deals already agreed with the Scottish Cities and their regional partners and the cities' priorities for inclusive growth. There is no need to add another layer of strategy to agreed local plans which have already been developed with and approved by Government.

Single Pot and Flexible: Monies should be provided with as few restrictions as possible. There is no need pre-determine capital and revenue breakdowns, or apply prescriptive allocations by theme, while reduced restrictions on eligible activities would allow UKSPF to support local priorities linked to agreed strategies.

Simplified appraisals and a rebalanced attitude to risk: Government and partners should agree a simplified and transparent appraisal and decision-making system, proportionate to the funding and activities, building on existing local processes where they already exist, and reducing the over-engineering and bureaucracy which has crept into the Structural Fund processes. A rebalanced and proportionate attitude to risk and risk sharing is required, which encourages rather innovation and enables the Scottish Cities to tackle persistent challenges around inclusion.

The proposed changes set out above would make UKSPF much more efficient and effective than the current EU Structural Fund Programmes. Taking a new approach to management and delivery would place the UKSPF at the centre of Government policy, tackling some of the country's most important economic challenges, rather than as a response to leaving the EU.

While EU Structural Fund programmes have made an important contribution to economic growth in Scotland over many years, over time they have become less responsive to local need and increasingly bureaucratic. Their replacement with UKSPF provides an opportunity to re-focus resources on the shared priorities of the Scottish Cities and Scottish Government, driving up competitiveness and tackling inequality through inclusive growth which benefits all of Scotland's residents.

7

Conclusions and Recommendations

"Shared Prosperity Fund investment in the Scottish Cities has the potential to produce an economic dividend of up to £9bn as productivity improves, producing higher wages at all levels in the workforce, and contributing to a more inclusive economy across the country."

The Opportunity
Shared Prosperity Fund investment in the Scottish Cities will support Scotland's Economic Strategy, the UK Industrial Strategy and local plans for inclusive growth. It should be designed to make full use of the country's economic potential, with investment increasing Scotland's productivity and helping to rebalance the UK economy. There is an opportunity to establish a long-term fund to deliver sub-regional economic priorities, with a greater share of total resources secured for the Scottish Cities, based on a transparent allocation system which responds to needs.

In order to achieve these ambitious aims, there is a need to properly resource the SPF, and ensure it is designed in a way which helps maximise impact.

Learning from the Structural Fund Experience
The Scottish Cities and surrounding regions have already successfully invested in the five foundations of productivity, supporting world class research and incubation facilities, developing new economic infrastructure and creating business environments to stimulate new investment and sector growth. The Cities have also worked with the Scottish Government to deliver initiatives to support inclusive growth, and have used ESF and other training and employability funds to provide targeted support to those most distant from the labour market.

The Cities, working closely with regional partners, have put in place enhanced governance and delivery capacity to take forward city region deal investments, which provide a basis from which to deliver Industrial Strategy priorities and local inclusive growth plans, based on need and opportunity. These arrangement are at varying stages of development.

Designing a Successful Shared Prosperity Fund
There is a clear view amongst the Scottish Cities on how best to take forward the UKSPF, learning the lessons of Structural Funds, and building on the economic potential of the Cities to deliver to national objectives. There is a recognition that capacity and institutional readiness vary across the cities, and that a one size fits all approach is unlikely to be suitable.

The proposed new arrangements need to be viewed as a package of improvements, rather than a wish list from which Government can cherry pick. These new arrangements are based on a high degree of trust and an understanding that many decisions are best made locally. It is important that the opportunity to do something differently under the SPF is seized, given the frustrations which have built up with the Structural Fund system, and the impact that the over-engineered processes and cumbersome bureaucracy have on the impact of the funding invested.

Approach	Commentary
National Framework	There should be a national framework for UKSPF within Scotland, linked to the objectives of the UK Industrial Strategy, Scotland's Economic Strategy and reducing economic inequalities between communities. This should provide higher level strategic direction, objectives and priorities. It should not set financial allocations or targets which are handed down sub-regionally based on financial allocations.
Maximum devolution of management and delivery	Government's default position should be to devolve management and delivery to Scottish Cities and / or regional bodies with sufficient capacity, with co-delivery used for other areas as a transition to introducing full local delivery.
Outcome Based	Moving away from activities and outputs as key measures to the more relevant substantive outcomes of investment.
Local Strategies	UKSPF should be used to boost and extend local strategies, notably city region deals and local plans for inclusive growth.
7 year Fund	As the most important financial source for addressing the UK's productivity and inclusive growth challenges, UKSPF needs to move from short term funding to a long term approach, with seven years as the minimum funding period.
Flexible, Single Pot	Monies should be provided with as few restrictions as possible, no restrictions on capital / revenue, or prescriptive allocations by theme, and reduced restrictions on eligible activities e.g. land remediation.
Simplified appraisals	Government and partners should agree a simplified appraisal and decision making system, proportionate to the funding and activities, reducing the over engineering and bureaucracy which has crept into the process.

These changes need to be set within the context of the role which the Shared Prosperity Fund will play in Scotland's economic development. The proposed changes set out above would make UKSPF much more effective and efficient than the current EU Structural Fund Programmes. Taking a new approach to management and delivery would place the UKSPF at the centre of Government policy, tackling some of the country's most important economic challenges.

Resourcing and Allocating the SPF

The UK Government has the opportunity to increase the funding available to the Shared Prosperity Fund, through a major financial enhancement to take account of the role of UKSPF in delivering shared priorities on raising productivity and tackling inequalities. There is no need to be bound to previous Structural Fund mechanisms for handling the funding. Given the important role which the SPF is expected to play in taking forward the Industrial Strategy, there is a strong case to argue for a much larger Fund than would be achieved merely by replacing the Structural Funds – in the region of £4bn per annum would provide the scale of resource needed to begin the (long-term) process of overcoming regional imbalances and closing the productivity gap which has opened up across the UK.

There is strong support to move to a transparent needs based allocation system for the UKSPF, which takes into account rebalancing the economy, closing the productivity gap and creating an inclusive economy, although the importance of investing in areas which offer significant economic opportunities was also highlighted. Any new allocation system will need to incorporate indicators which reflect these three areas of challenge, although it should be noted that different Cities will benefit more or less, depending on the specific mechanisms chosen.

A needs-based system is likely to result in a higher proportion of total funding through the SPF being allocated to the Scottish City regions, as these offer both the best opportunity to economic growth and have some of the highest levels of need within Scotland, although some of the most deprived areas in the country are not covered by the city region geography. However, there is a risk that the status quo provides the least controversial option for the Government and that those who have most to gain from moving to a more transparent and robust allocation have less influence over the design of the mechanism than those who might lose out.

Potential Benefits of SPF

Shared Prosperity Fund investment in the Scottish Cities has the potential to produce an economic dividend of up to £9bn as productivity improves, producing higher wages at all levels in the workforce, and contributing to a more inclusive economy across the country.

A UKSPF financial allocation set at current SF levels, is estimated at £134m per annum across Scotland. This would result in only limited resources available at a City and regional level to rebalance the economy, improve productivity and support inclusive growth.

A more realistic level, taking account of UK policy objectives, would be circa £340m per annum, allowing local areas to invest in key areas of ideas, business environment, skills and place / infrastructure.

Recommendations

The major recommendations emerging from this work are:

1. SPF should use a transparent, needs-based allocation system, linked to the objectives of the Industrial Strategy and reducing economic inequalities between communities. While challenging, any new system should seek to take account of both need and opportunity.

2. The Scottish Cities should make the case that the UKSPF budget should not be determined by previous levels of Structural Funds and should be significantly increase. As a minimum, UKSPF should be funded at a level of circa £4bn per annum for seven years, equivalent to c. £340m per annum in Scotland, reflecting its importance in delivering UK and Scottish policy objectives.

3. The Scottish Cities should work to secure Ministerial commitment to moving away from short- term and singular funding pots linked to the specific agendas of the Departments from which they are originally made available. A more holistic approach is needed, which requires a significant degree of trust in local decision-making.

4. There is a compelling case, based on the Scottish Cities' track record of ERDF and ESF investment, agreed local strategies, capacity and ambition to devolve a large proportion of Scotland's allocation of the UKSPF to the Scottish Cities.

5. The Scottish Cities must be closely involved in the design of the UK SPF and be involved in all discussions regarding its scale, focus and management and delivery processes with the UK and Scottish Governments. Both Governments must work with the Scottish Cities to co-design the SPF, to ensure their expertise in raising productivity, supporting inclusive growth and tackling inequalities between communities informs the Fund.

6. The constant on-off and changing of funding streams and programmes undermines efforts to strengthen local economies. Despite the lack of certainty over the SPF, the Scottish Cities should begin to develop a portfolio of projects to deliver local economic strategy priorities, building on investment already made through the Structural Funds..

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