

Item: 20

Policy and Resources Committee: 20 September 2022.

Replacement of Previous EU Structural Funding.

Report by Corporate Director for Enterprise and Sustainable Regeneration.

1. Purpose of Report

To consider establishment of a fund to support projects in Orkney, accessible to local organisations which formerly benefitted from EU funds, which supported communities, local business, people and places.

2. Recommendations

The Committee is invited to note:

2.1.

That the UK Government established its Shared Prosperity Fund (UKSPF) with a prospectus for the fund in Scotland published on 13 April 2022.

2.2.

That local authorities were required to complete an Investment Plan across all three delivery years, setting out how they intend to use and deliver the funding to meet the UKSPF investment priorities.

2.3.

That, on 5 July 2022, when considering the Orkney UK Shared Prosperity Fund Investment Plan, the Council resolved:

- That the draft UKSPF Investment Plan, attached as Appendix 2 to the Minute, be endorsed.
- That, taking account of the outcome of consultation with the Orkney Partnership, the MP and the MSP, powers be delegated to the Chief Executive, in consultation with the Leader and the Section 95 Officer, to approve and thereafter submit the final Orkney UKSPF Investment Plan to the UK Government by 1 August 2022.
- That the Corporate Director for Enterprise and Sustainable Regeneration should submit a report, to the next meeting of the Policy and Resources Committee, regarding the establishment of a fund to support projects in Orkney, accessible to local organisations which formerly benefitted from EU funds, which supported communities, local business, people and places, as the Shared Prosperity Fund intended.

2.4.

The analysis of previous tranches of EU funding programme, as detailed in Appendix 1 to this report.

2.5.

That, whilst the recently established Crown Estate Community Led Local Development Fund does not directly target replacement of EU structural funds, it will be available to organisations previously in receipt of such funds and could be used to fund similar projects.

It is recommended:

2.6.

That the Corporate Director for Enterprise and Sustainable Regeneration should undertake consultation with wider community stakeholder organisations and other funding agencies to assess areas of potential funding gaps in the post Brexit funding landscape and thereafter submit a report outlining the findings of the consultation to the Policy and Resources Committee in early 2023.

3. Introduction

3.1.

On 5 July 2022, the Council endorsed a draft UK Shared Prosperity Fund investment plan and delegated authority to the Chief Executive, in consultation with the Leader and the Section 95 Officer, to approve and thereafter submit the Investment Plan to the UK Government by 1 August 2022. The plan was submitted on 5 July 2022.

3.2.

The Council also resolved that the Corporate Director for Enterprise and Sustainable Regeneration should submit a report, to the next meeting of the Policy and Resources Committee, regarding the establishment of a fund to support projects in Orkney, accessible to local organisations which formerly benefitted from EU funds, which supported communities, local business, people and places, as the Shared Prosperity Fund intended.

3.3.

This report provides background analysis of the UK Shared Prosperity Fund and former receipts of EU Structural and Investment funds. It also discusses of existing funding sources additional to the UK Shared Prosperity Fund and identifies possible funding sources and options for an additional new fund.

4. Background

4.1.

The objective of the UK Shared Prosperity Fund is to support the UK Government's delivery on each of the levelling up objectives to:

- Boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging.
- Spread opportunities and improve public services, especially in those places where they are weakest.
- Restore a sense of community, local pride and belonging, especially in those places where they have been lost.
- Empower local leaders and communities, especially in those places lacking local agency.

4.2.

Underneath the overarching aim of building pride in place and increasing life chances, there are three UK Shared Prosperity Fund investment priorities:

- Communities and place.
- Supporting local business.
- People and skills.

4.3.

The UK Shared Prosperity Fund, alongside the Levelling up Fund (LUF), is intended to replace EU funding provided through the European structural and investment funds, namely European Regional Development Fund (ERDF), and European Social Fund (ESF).

4.4.

The UK Shared Prosperity Fund is to be provided to the Council as an annual allocation, whereas the Council must bid against other local authorities for LUF funding, with no guarantee of success. UK Shared Prosperity Fund funding is initially allocated over a three-year period, and funding increases over the three years to about £1 million in 2024/25, with the rationale being that this funding increases as EU funding streams fall away. The Council has submitted an application for LUF funding and awaits the outcome.

4.5.

Both ERDF and ESF also required applicants to bid for funding. Whilst year on year awards to the Council and other applicant organisations in Orkney have varied considerably, there was on average over £2.1 million income per year (inflation adjusted) from ERDF and ESF.

4.6.

It is notable that the UK Shared Prosperity Fund funding in year three is well below that previously received through EU structural funds, although success in the LUF funding applications could change that picture.

4.7.

Another key difference between Levelling up funding and EU structural funding is that levelling up funding is all channelled via Local Authorities, whilst other entities could bid for EU Structural funds. Fund recipients in Orkney over previous programmes are detailed in Appendix 1.

5. Existing additional funding sources

5.1.

On 21 June 2022, the Policy and Resources Committee recommended that 50% of the balance of the Crown Estate Fund, approximately £627,000 as at 31 March 2022, plus 50% of future annual allocations of Crown Estate revenues, estimated at £535,000 per annum over 2020 to 2022, be allocated and split evenly to the following two new funding schemes:

- Crown Estate Economic Development Fund (CEEDF).
- Crown Estate Community Led Development Fund (CECLDF).

5.2.

The CECLDF was established principally to in part fill a gap in funding for community projects which has arisen in the transition from the EU LEADER programme to a Scottish Government funded Community Led Local Development Fund.

5.3.

Whilst the CECLDF does not directly target replacement of EU structural funds, it will be available to organisations previously in receipt of such funds and could be used to fund similar projects.

5.4.

The CEEDF represents new funding to help local businesses and whilst this does not directly replace EU Structural Funds there is a common outcome aim with Levelling up of “supporting local business”.

5.5.

The Council is therefore already making some additional funding available to local organisations which formerly benefitted from EU funds, which supports communities, local businesses, people and places, as the Shared Prosperity Fund intended.

5.6.

The proportion of the Council's Crown Estate Fund that remains unallocated to the CEEDF and CECLDF can still continue to be applied in accordance with the guiding principles agreed by the Council on 19 December 2019 with considerable flexibility for interpretation of eligible project funding. The fund contains approximately £627,000 as at 31 March 2022, and will receive an estimated additional £535,000 on average per annum over 2020 to 2022.

5.7.

In 2018 a jointly funded 'Aspiring Communities Fund' was established with EU and Scottish Government funding and administered by the Scottish Government to pursue the following stated ESF objectives and targets:

- Community based or community services supported.
- New childcare places available.
- Deprived or fragile communities supported.
- People benefitting from new services/support.
- New or improved community owned assets (noting that capital for acquisition must be obtained from other non ESF sources).

5.7.1.

This fund ended in March 2022 with some assumptions held by local third sector organisations that the UK Shared Prosperity Fund might offer a biddable alternative.

5.8.

In June 2022 the Scottish Government announced the second round of its Investing in Communities Fund. This fund will have an annual budget of £10 million and be delivered from 1 April 2023 to 31 March 2026 providing grants of up to £350,000 per organisation over this funding period. Eligibility is directed towards Third Sector organisations such as Community/Voluntary groups, registered charities, Community Councils and Social Enterprises.

5.9.

The Islands Growth Deal is providing £33.3 million to Orkney projects over the next decade, mostly focussed on capital infrastructure of the type previously funded by EU structural funds.

5.10.

The post-EU funding landscape is complex and dynamic and at time of writing 439 support options, potentially available to Orkney businesses, were listed on the Scottish Government's website at [FindBusinessSupport.gov.scot](https://www.findbusinesssupport.gov.scot).

6. Possible additional new fund

6.1.

If the Council was to deem it appropriate to make additional funding available to local organisations which formerly benefitted from EU funds, the following funding sources could be used:

- The reallocation of all, or a proportion, of the residual uncommitted balance of approximately £1.3M, from the Council's £5 million COVID Response Fund.
- An allocation from the Strategic Reserve Fund.

6.2.

At its Special Meeting held on 16 April 2020 at the start of the COVID crisis the Council established the Coronavirus Response Fund with £5M to assist local businesses to survive the economic downturn that had arisen as a result of the pandemic. This disbursed and committed funding via Council approved direct grant support allocations and assistance to a variety of projects deemed pertinent to economic recovery. Demand for specific COVID recovery activities has reduced significantly and generally since the ending of restrictions.

6.3.

The Council's Coronavirus Response Fund has allocated funds to a variety of support measures such as:

- COVID hardship grants for businesses in difficulty.
- Supplemented some of the early Scottish Government COVID grants by 10%.
- Supported jobs in the Hotel sector during two winter periods.
- Supported a range of recovery investment projects.

6.3.1.

Taking into account grant payments and funds committed or ringfenced to ongoing projects the fund balance is approximately £1.3M.

6.4.

An allocation from the Strategic Reserve Fund could be made, although the affordability of additional commitments on the fund would have to be assessed.

7. Discussion and Options Identified

7.1.

There are significant new, and still emerging, grant funding programmes open to application for project proposals and organisations that would have previously been supported through EU structural funds. These include Islands Deal and Crown Estate money as well as biddable programmes such as Aspiring Communities and Investing in Communities. Due to the variety of funding sources and recipients it is

very challenging to identify projects or organisations who have experienced material change in funding prospects due to the changing regime.

7.2.

There is currently no clear demand or evidenced gap in support funding. However, in addition to the complexities noted, the Council's Economic Development service and HIE are currently seeing relatively low demand for funding due to an assumed lack of current investment confidence.

7.3.

Informal early explorations relating to the new UK Shared Prosperity Fund model of delivery have included the Third and University sector representatives and this confirms a previously held general expectation that after Brexit there would be more biddable funding options available. Further consultation is required to fully understand the perceived versus actual gaps, but funding programme details remain emergent.

7.4.

Therefore, if a new fund is to be designed and established it will require careful consultation as well as consideration of subsidy control legislation (formerly state aid). In practice it is not a trivial task to target any new fund and determine appropriate eligibility and funding criteria. This challenge will be exacerbated by the currently complex and changing funding landscape and it could be considered prudent to not specify eligibility too stringently to enable flexibility for future delivery of benefit and outcomes. It may also be possible to address any gaps in the eligibility criteria for the recently established Crown Estate Economic Development Fund and Crown Estate Community Led Development Fund.

7.5.

In the past with EU structural funds, it was relatively easy to determine the information from the published awards at a local level. As a result of the many new and different funding calls, the Council does not have full information on which organisations in Orkney have bid for grants.

7.6.

Two options are therefore identified:

- Option 1 – Do not establish any fund, but monitor, and report again to Committee if the situation changes.
- Option 2 – The Corporate Director for Enterprise and Sustainable Regeneration undertake a consultation exercise with local stakeholders and a wider review of the funding landscape to determine need, scale and design of a fund, and report back to the Policy and Resources Committee in early 2023.

7.7.

Having identified that there is a gap in understanding of the potential for Orkney based organisations to apply for the new and various fund programmes, Option 2 is recommended.

8. Human Resource Implications

It will be essential to establish staffing resource to help administer the assessment of applications and disbursement of financial support from any fund that is established in the future. Details of the required staffing resource will therefore be revisited in future reports. At this stage there are no direct HR implications arising from the recommendations.

9. Corporate Governance

This report relates to the Council complying with governance and procedural issues and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

10. Financial Implications

10.1.

There are no immediate financial implications arising from the report recommendation.

10.2.

Any recommendation to draw additional funding from the Strategic Reserve Fund should be accompanied by an assessment of the impact of that draw on the Fund.

11. Legal Aspects

There are no direct legal implications arising from the recommendations contained in this report.

12. Contact Officers

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13. Appendix

Appendix 1: Analysis of previous EU funding.

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Data has been analysed from the last 5 European Structural and Investment funding programmes from the first 1988-1993 through to the most recent for 2014-2020. The main EU funding structures were:

- European Regional Development Fund (ERDF) – aimed to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions. This was focussed towards Capital and infrastructural investment.
- European Social Fund (ESF) – aimed to deliver an increase in labour market participation, promote social inclusion and develop the skills of the potential and existing workforce.

Summary statistics

EU Structural and Investment Fund awards to Orkney over 5 programmes

	Programme (Years)					Total
	1988-1993	1994-1999	2000-2006	2007-2013	2014-2020	
ERDF	£10,704,760	£4,231,814	£11,056,261	£8,573,232	£2,425,088	£36,991,155
ESF	N/A	£1,809,391	£1,164,385	£395,652	£110,666	£3,480,094
Total	£10,704,760	£6,041,205	£12,220,646	£8,968,884	£2,535,754	£40,471,249
Total adjusted to CPI* 2021 values	£24,064,300	£10,294,213	£18,758,692	£12,233,557	£2,829,901	£68,180,664

*Consumer Price Index

Over £40M was awarded to Orkney over the 5 EU funding Programmes. Consumer Price Index adjustment estimates this as equivalent of over £68M in real terms. There has been considerable variation in terms of awards made from each of the programmes, but a simple average over the 32 years of programme funding since 1988 is over £2.13M a year using the price adjusted figures.

Over the 5 ERDF programmes focussing on Capital Infrastructure the following types of projects were supported in Orkney.

- Ro-Ro and ferries.
- Piers (excluding Hatston).
- Hatston Pier.
- Transport projects.
- Water, Sewerage, Recycling.
- Roads.
- Business/Tourism Development.
- Orkney College.
- Pickaquoy Centre.
- Orkney Marketing Scheme.
- Joint and Partner projects.

The following breaks down the Organisations that were successfully awarded structural funds since 1994-1999 Programme.

Programme	Organisation	Percentage of Orkney Award
ERDF 1994-1999	Orkney Islands Council	53%
	Orkney College	15%
	Orkney Enterprise	25%
	Historic Scotland	7%

Programme	Organisation	Percentage of Orkney Award
ERDF 2000-2006	Orkney Islands Council	78%
	Orkney College	9%
	Pier Arts Centre	9%
	Orkney Tourist Board	2%
	Westray Development Trust	2%
ERDF 2007-2013	Orkney Islands Council	95%
	Orkney College	2%
	RSPB	3%
ERDF 2014-2020	Orkney Islands Council	31%
	Orkney Campus	69%

Successive ESF Programmes were open to funding bids for a range of projects and included many individual skills course developments during the Programme from 1994 to 2006. After that funding targeted employability projects mainly in the Third Sector or Poverty and Social inclusion led by the Council.

Programme	Organisation	Percentage of grant awarded from the Orkney Programme Award total
ESF 1994-1999	Orkney College	71%
	Orkney Enterprise	24%
	Orkney Islands Council	4%
ESF 2000-2006	Orkney College	54%
	Herriot Watt University (ICIT)	29%
	Orkney Enterprise	8%

Programme	Organisation	Percentage of grant awarded from the Orkney Programme Award total
	Orkney Islands Council	4%
	Employability Orkney	3%
	Orkney Opportunity Centre	2%
ESF 2007-2013	Employability Orkney	47%
	Orkney Blide Trust	42%
	Orkney College	11%
ESF2014-2020	Orkney Islands Council	100%

Programme	Organisation	Percentage of Orkney Award
EMFF* 2014-2020	Orkney Islands Council (Pierowall Harbour)	N/A

* European Maritime and Fisheries Fund – Awards made to individual Fishing businesses not included.

Commentary

Significant variation in the figures reported reflects the considerable change in developmental opportunities, stage of development and need in the organisations that applied for and were awarded funds. These funding awards required match funding to be secured. Orkney College was the major ESF awardee during a period of significant new curricula development towards the establishment of the University of Highlands and Islands. Orkney Enterprise (now HIE) previously had Skills remit (prior to establishment of Skills Development Scotland (SDS)) and previously supported significant skills development projects using ESF.