European and External Relations (EER) Committee

The 2014-2020 European Structural and Investment Funds programmes

The following organisations have submitted written evidence to the EER Committee:

- COSLA
- Highlands & Islands Enterprise
- North Ayrshire Council
- Scottish Chambers of Commerce
- Scottish Government
- University of the Highlands & Islands (UHI)

Written submission from COSLA

EU Scottish Funds 2014-2020

1. COSLA as the national and international voice of the 32 Scottish Local Authorities would like to thank the opportunity to contribute once again to this inquiry from the Scottish Parliament Europe and External Relations Committee

2. Members will be aware that, for the last few months, negotiations have been ongoing around how best European Structural Funds for Investment for the 2014-2020 period be allocated within Scotland. Known as the Scottish Partnership Agreement it comprises the European Regional Development Fund (ERDF), the European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

3. Indeed we welcome that the Scottish Government opted to fully exploit the integrated approach across funds, government departments and partners that the new Common Provisions Regulation (CPR) now governing all these funds clearly foster.

4. Members will also be aware that that in order to define the key investment priorities (known as Strategic Interventions) the Scottish Government invited national agencies, Local Government, business and voluntary sector and other partners to form three shadow Strategic Delivery Partnerships (SDP): Competiveness-Innovation-Jobs; Environment-Resource Efficiency-Low Carbon; and Social Inclusion-Local Development.

5. Indeed this is the latest stage of a series of very detailed discussions with Government on the future shape of the programmes that has been taken place over the last couple of years. Indeed we are pleased that the contribution from Councils both individually as well as via COSLA has been particularly intense.

6. After the final round of SDP meetings on 25 September Government officials are finalising the Partnership Agreement 2014-2020 though COSLA and others will continue closely engaging with government at both officer and political level.

7. Indeed it is worth noting that the new Partnership provisions of the new EU Regulations (article 5CPR) and the new Code of Conduct of Partnership make legally binding, and in a more detailed fashion that at the moment, that partners and stakeholders are involved by the managing authority (in our case the Scottish Government) in the implementation of the funds.

Potential Local Government-led strategic interventions:

8. During of SDP process the purpose was to identify a number of strategic interventions whose deliver could be then led by the national, local and voluntary bodies and agencies that were involved in the SDP discussions.

9. One of the key outcomes of the SDP discussions was the identification of six key strategic interventions that all councils could in principle be eligible for:

   - Business Accelerator
   - Local Business Loan Funds
   - Youth Employability
   - Low Carbon Communities
   - Community Planning Partnership Skills Pipelines
   - Regeneration Capital Grant Fund

10. Council Leaders endorsed the above list at their August and September meetings. It is also worth noting that some additional proposals for some Councils such as those put forward by the Cities Alliance have also been put forward.

11. Initial discussions suggest that these proposals for strategic interventions to be led by Councils have been well received by government. While budgets depend on negotiations still taking place in Brussels , and the fact that more proposals have been put forward by SDP partners than EU funds are available it is worth noting that the future share of EU funds to be led by Local Government could amount to one third of the Scottish Partnership Agreement, which to COSLA appears to be the minimum amount that can ensure councils deliver integrated local outcomes whilst achieving the set EU2020 strategic outcomes for Scotland would give a significant degree of ownership and localisation of EU spend that is higher than at present. Clearly though this funding will not all be directly allocated to councils themselves: CPPs and Business Gateway are expected to deliver significant amounts of the above.

Outstanding issues

12. Clearly there are many issues around the Partnership Agreement that still require further discussion with Government both at political and officer level. To guide them Leaders agreed back in September the following lines on our view of the outstanding issues that needs to be progressed in the Partnership Agreement and the Operational Programmes that will implement it in detail.

13. The COSLA Convention position is that ‘Individual and groups of local authorities should be given all eligible EU monies directly from the Scottish Government and therefore be in control of how these monies are spent.’

14. COSLA notes that the six strategic intervention submissions prepared by council officers amount precisely to **one third of the Scottish Partnership Agreement allocation**. COSLA has previously signalled to Ministers that this **is the absolute minimum share that the local government sector**

should have access to if we are to achieve the EU2020 outcomes required.

15. We are keen to work in partnership with Government and other bodies, but remain **sceptical that forcing a Lead Partner delivery model on Local Government would work**. Clearly the **preference is to continue and improve the current arrangements** that enable local authorities, Business Gateway and CPPs to be individually responsible for their own EU fund allocations, rather than asking them to enter into legally binding arrangements with each other to delivering EU funded strategic interventions. Using the same logic, we **do not support local authority-led activities or funds being subsumed** into interventions led by Government, other agencies or bodies.

16. We also note that **no detailed description of the legal responsibilities** among councils and/or other bodies under the proposed Lead Partner model has been shared by Government, **thus preventing any detailed assessment on its financial and legal consequences**.

17. Conversely, in line with the COSLA Vision, we are **keen on strategic interventions allowing a reasonable degree of local discretion and control over resources**, while at the same time **working in partnership with other bodies through a consistent pipeline approach of interventions**, led by the different bodies contributing to national outcomes.

18. As regards **Highlands and Islands**, we confirm our previous position arguing for the area to have its **own Operational Programmes** as at present.

19. COSLA suggests that the 2014-2020 **Partnership Agreement Monitoring Committee** has **sufficient local government senior officer representation** rather than members. Its internal working should be rearranged to enable H&I and SRDP-only issues to be specifically discussed, facilitate more accountability, better decision making and improved transparency. **Non-strategic, day to day running of each fund could be delegated to a Programme Management Committee for each Fund**, open to the participation of Local Government practitioners. An alternative could be to entrust these functions to the Strategic Delivery Partnerships.

20. Crucially, **to provide political oversight** to the PAMC discussions, a **periodic, systematic dialogue on the strategic delivery of the programmes** should take place, involving relevant Cabinet Secretaries and COSLA Presidential Team/Spokespersons, with adjustments, if appropriate, to ensure geographical representativeness.

21. **Audit and reporting rules need to be clear from the outset** and Audit Scotland needs to work with Scottish Government and councils to ensure that there is a clear understanding of our new potential obligations up front, including the new simplified cost models that council officers have been preparing with civil servants to alleviate management and audit burden.

22. **As we move to the Operational Programme drafting we expect that the discussion and engagement will be as open to Local Government input** as the SDP, but we **need clarity from the outset about the format, structures and calendar of drafting**.

23. Specifically on the EAFRD, we note that in previous periods local communities had very limited access to the Rural and Maritime programmes, which constitute half of EU funding coming to Scotland.

24. The current discussions offer a great opportunity to critically reassess, on the basis of the evaluations that are being carried out, whether some additional spend **from EAFRD and EMFF could be addressed at rural and coastal communities development and diversification.** Activities such as community-led development, tackling rural deprivation, skills, business support for local rural and coastal SMEs are among many areas where the Structural and the Rural and Maritime funds can complement each other and where LEADER Local Action Groups (LAGs), Business Gateway, CPPs and local authorities can have a much more significant role than at present.

25. We note that the current EU earmark of 5% for the LEADER initiative is only the minimum threshold and that Government can choose to allocate more for integrated, Community led local development interventions.

Written submission from Highlands and Islands Enterprise

INTRODUCTION

Highlands and Islands Enterprise (HIE) is pleased to present evidence on Scottish development of European Structural and Investment (ESI) funding programmes for the period 2014 – 2020. Operating across more than half of Scotland's land mass, HIE pursues a vision to help create a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest. Extensive and effective use of a range of EU funds makes a significant contribution to our work.

In the current EU funding period HIE has operated as one of three Strategic Delivery Bodies administering Structural Funds in support of business and community development. HIE has also been engaged with the Scottish Government and other stakeholders in the development of the new ESI funding programmes, being represented on each of the three shadow strategic delivery partnerships (SDPs).

HIE’s submission focuses on three areas – collaboration, strategic approach and simplification

Collaboration

We are supportive of the collaborative approach taken to the development of new programmes. While this has not been without its challenges – for example, accommodating the views of a wide range of stakeholders, working to tight timescales and seeking integration of structural, rural and fisheries funds when decision timelines in Brussels for each are very different – the approach has succeeded in engaging with those organisations who are likely to be most involved in delivery of future funds.

A collaborative approach has been highly beneficial to the development of strategic interventions in each of the three thematic areas. HIE has been particularly involved in development of interventions on Business Competitiveness, Innovation, and Digital Connectivity and has had input to others through participation in the SDPs.

We would like to see this engagement with stakeholders continue as the Partnership Agreement is finalised, Operational Programmes are developed and delivery arrangements put in place.

Strategic Approach

A strategic approach to using ESI funds – aligning EU and domestic funds where they can make the best contribution to Scottish and European objectives and deliver enhanced outcomes – is an effective means of maximising the benefit of such funds.

A strategic approach at Scottish level has scope to include bespoke approaches in different parts of Scotland, reflecting the particular challenges and opportunities at regional level.

This is particularly relevant in the Highlands & Islands, the only part of Scotland to be designated an EU transition region, with a ring fenced structural funds allocation of c.€172m along with a proportion of rural development and fisheries funds. A mix of interventions is required to promote cohesion and equity, both within the region and with the rest of Scotland, responding to the Highlands & Islands relatively low GDP (84% of EU average).

Accordingly, stakeholders in the Highlands & Islands are working with the Scottish Government to develop an integrated territorial response and ensure that interventions address:

- the particular challenges of the Highlands & Islands, including difficult geography, low population density, out migration of young people, dispersed population of small and micro businesses, poor (though improving) connectivity, and rural inclusion and poverty

- the potential of growth sectors including renewable energy, digital healthcare, and food and drink

In practice, interventions in the Highlands and Islands are likely to be a mix of:

- nationally delivered activity, where such activity can be delivered effectively across the whole of Scotland
- tailored delivery, where account has to be taken of the particular environment and delivery landscape in the Highlands & Islands
- Highlands and Islands specific activity, addressing challenges or opportunities not present in the rest of Scotland

A strategic approach to the use of EU funds is even more powerful when it extends beyond the ESI funds to include, for example Horizon 2020 and the various INTERREG funds. HIE is working with partners to develop a more strategic and effective means of identifying and securing a wider range of EU funds to complement ESI funding.

Simplification
HIE welcomes the EU and Scottish Government commitment to simplify the delivery of future funds through the identification of lead delivery bodies and the adoption of simplified cost models, allowing a sharper focus on project outcomes rather than expenditure.

HIE's own experience as a Strategic Delivery Body has highlighted the benefits of a planned and more strategic approach, aligning funds to deliver a range of outcomes. Benefits have included streamlined administration of funds and flexibility in delivery to achieve outcomes. An extension of this approach to a wider range of lead delivery bodies is welcome.

HIE broadly supports the opportunity to adopt simplified costing models where appropriate. They have the potential to simplify the audit and compliance requirements of some projects, particularly those with high volume outputs. We do however recognise the considerable input required at the outset to develop an appropriate and acceptable model. We would also caution against adoption of such models in all cases, particularly those with low volume outputs and those where interventions are unique, for example ERDF investment in business infrastructure or support for business investment by third parties.

Conclusion

Scotland's approach to development of ESI funding programmes for 2014-2020 benefits from being collaborative and strategic. HIE looks forward to continued engagement with the Scottish Government and stakeholders to develop and deliver a range of interventions that contribute to EU 2020 and Scottish Government objectives and, importantly, have a positive impact on regional cohesion and equity by addressing the particular challenges and opportunities of the Highlands & Islands.

Written submission from North Ayrshire Council

INTRODUCTORY REMARKS

North Ayrshire Council and North Ayrshire's Community Planning Partnership have worked with a number of EU funding programmes in 2007-13: Lowland & Upland Scotland and Highlands & Islands Structural Funds programmes; Ayrshire and Argyll & Isles LEADER rural programmes; the Cross Border programme with Ireland and Northern Ireland. These have helped to support our mainland and island businesses and communities with a range of business support and employability & skills programmes, transport and marine infrastructure and community regeneration projects. We have been involved in a number of partnership projects, taking the Lead Applicant responsibility for some.

The 2007-13 programmes presented a number of key changes in the way that EU programmes were delivered in Scotland, raising challenges for programme delivery. We are committed as a Council, and in our partnership work, to contribute to ongoing dialogue with Government in order to ensure that these and new challenges are addressed for the new 2014-20 programmes.

As part of the preparations for the forthcoming 2014-20 programmes, Council officers have been involved alongside other major stakeholders in the shadow Strategic Delivery Partnership (SDP) process which was set up by Scottish Government. The SDPs have been looking at drawing support from the EU's regional, social, rural and maritime funds to support large scale strategic interventions under the three proposed thematic priorities in Scotland: Competiveness-Innovation-Jobs; Environment-Resource Efficiency-Low Carbon; and Social Inclusion-Local Development.

THE NEW APPROACHES – 2014-2020 programme

The three key investment priorities proposed by Scottish Government align well with the aims of the EU Common Strategic Framework, EU 2020, national programmes and strategies, and with the local economic development and regeneration strategies developed in North Ayrshire. In the face of constraints, such as the reduced capacity to offer support to infrastructure projects, the proposed interventions should still achieve an important impact on Scottish and local economies.

These interventions need to have a robust evidence base supported by proper evaluation of recent experience. This holds true for determining the types of intervention to be pursued as well as how they will be most effectively delivered. The word "strategic" often gets misinterpreted as meaning national when there is good evidence showing the delivery of strategic projects at regional or local level. This issue was picked up on in discussion in the Competitiveness SDP where there was consideration of the benefits to business which could be derived from an integrated approach which co-ordinated and aligned national interventions with locally specific interventions to support business growth helping, for example, SMEs and micro-enterprises to move from initial start-up phase through to genuine internationalisation of products and services.

It will be important that this integrated approach is carried forward when the Operational Programmes (OPs) are set up for each Fund. These OPs will need to recognise the diversity of economic circumstances within Scotland. This is not just a question of urban/rural differences, but also in recognising that some parts of Scotland are performing better than others. It is important that Funds do not simply follow the easy route and go to activities/locations where match funding is most readily available rather than to where the needs/opportunities actually lie.

A degree of spatial targeting in the programmes is therefore required. This can be financial (more money to where needs are greatest) as well as functional (wider menu of activities in disadvantaged areas). This kind of approach is being successfully used in the current programmes to support employability and skills pipelines.

Some targeting or tailoring of support will, in effect, be a requirement following the EU's designation of the Highlands & Islands as a Transition Region in light of economic statistics. Scottish Government is engaging in dialogue with the lead delivery organisations and other regional partners in the Highlands & Islands to examine how to achieve the best outcomes for this uniquely peripheral, insular and sparsely populated region, for Scotland and for Europe. This includes the potential for an integrated territorial approach, co-ordinating and aligning national interventions with regionally and locally specific interventions to deliver an agreed set of outcomes.

A similarly strong willingness exists in the West of Scotland to engage in proper dialogue with Scottish Government on making best use of the additional funds the EU has directed to the region to support Youth Employment. The West of Scotland European Forum - comprising key public, third sector and college partners – is a good base on which to found discussion on how these funds can be used to support additional activity and not just substitute for "mainstream" European Social Fund support, with private sector engagement vital to the success of this initiative.

The Scottish Government's concept of a single lead partner to take forward these large scale strategic interventions does, however, raise questions for local authorities from a delivery and audit perspective and we are currently seeking more details on the legal responsibilities which would fall on Councils and other bodies under the proposed model – it is important that the Scottish Government clarifies this quickly. One of the lessons we must learn from earlier programmes is that audit and reporting rules need to be clear from the outset.

LESSONS LEARNED 2007-2013

North Ayrshire Council was one of the 13 pilot Community Planning Partnerships that was successful in bidding for funding through the employability and skills pipeline model supported by the current Lowland Scotland structural funds programmes. This new approach has allowed us far greater control in designing and targeting interventions to our area's specific labour market conditions. It has also enabled us to develop better partnership working across a range of local and national partners.

This model has linked well with the North Ayrshire Economic Development & Regeneration Strategy which aims to regenerate the North Ayrshire's economy and communities. The Employability & Skills Pipeline has been extremely effective at integrating an approach that combines interventions to support both supply and demand for labour in our area. It has allowed a more strategic and effective approach to allocating funds and targeting local priorities and it is important that this is continued into the future programme.

Programme administration and compliance has been a key issue throughout the current programme with many lead partners across Scotland struggling to fulfil the audit and compliance requirements. This was an issue identified early in the programme by North Ayrshire Council and led North Ayrshire to adopt a procurement based model for our employability programmes. Any activity that could effectively and properly be delivered through an external organisation was put out to competitive tender. This greatly reduced the audit burden on the Council and has led to a North Ayrshire programme with a high level of audit compliance and delivery performance. Some other local authorities used a partnership model that maximised availability local of match funding but led to extremely challenging audit requirements. Our approach has been recognised by Scottish Government as a model of leading practice, with a certificate of achievement awarded to North Ayrshire for the delivery of the 2007-2013 programme.

An important impact of this procured model has been the enhanced role of both local and national social enterprises in delivering employability programmes. 83% of all contract value is delivered by our social enterprise partners – the highest among the 13 CPP pipelines.

A national delivery group has also been set up to provide a national perspective on these models. This has been important in sharing information, shaping delivery, sharing learning and bringing other national partners to the table to inform policy and delivery. It is important that this is continued in the new programme.

Written submission from the Scottish Chambers of Commerce

Introduction

Scottish Chambers of Commerce is the umbrella organisation for 26 local Chambers of Commerce across the country, which have a membership of around 10,500 businesses. These members are businesses of all sizes, drawn from all sectors of the economy, from sole traders right through to large multinationals and they employ over half of Scotland's private sector workforce. Scottish Chambers of Commerce and our constituent local Chambers exist to serve the needs of our members and to represent their interests.

Scottish Chambers of Commerce welcomes the opportunity to contribute towards the European and External Relations Committee's scrutiny of European Structural and Investment Funds.

Scottish Chambers of Commerce strongly believe that the Partnership Agreement should provide for EU funds to have maximum impact on Scotland's economy.

In its UK position paper, the European Commission identifies business – and SMEs in particular – as key players **in delivering each** of the three priorities identified for the UK. They are -

1. Increasing labour market participation through improved labour market and education policies and reducing the risk of social exclusion
2. Promoting R&D investment and the competitiveness of the business sector
3. Promoting an environmentally friendly and resource-efficient economy

The Scottish Government has already interpreted the above highlighting the following be the focus for Scotland -

1. Tying together better skills and business development for greater competiveness and more and better local employment opportunities,
2. Focusing on commercialising a world class research base,
3. Using financial engineering instruments to support major infrastructure ambitions as well as business finance.

While these are positive ambitions, they lack explicit recognition of the vital role that the private sector will play in delivering the priorities set. The Partnership Agreement needs to recognise this role, and include:

1. Specific commitments to prioritising SMEs for funding, in recognition of the lead they have in terms of potential impact on Scotland's economic growth in the first two priority areas in particular, around increasing labour market participation, and promoting R&D&I investment and business competitiveness.
2. Explicit commitment to working with the private sector in determining where funds are applied, in recognition of the primacy of the private sector's role in delivering the set priorities, and ensuring funds are focussed directly on the individual/business/infrastructure and not on process and organisations.
3. A stated recognition of the importance of *digital infrastructure* in delivering a competitive business sector with the capacity for job creation and economic

growth, and a consequent stated commitment to including digital infrastructure improvement in Scotland's strategy for use of these funds.

Scotland's funding from the EU is going to be significantly less in 2014 to 2020 than it has been over the two preceding funding rounds. This means that choices need to be made about the best ways of using the funds in order to achieve the greatest impact. It is therefore important that Scotland does not commit to supporting thematic objectives that are extraneous to its focus on funding programmes which will best support the European Commission's three identified priorities for the UK.

The eight proposed thematic objectives do adhere to this imperative, but the Scottish Government must be clear which of these form its main focus, in order to ensure the funds deliver maximum impact for Scotland in line with the Commission's priorities. R&D&I funding is of particular importance as Scotland lags behind the UK in this respect, despite having a strong university sector. Scottish Chambers of Commerce therefore suggest emphasising the following as **primary** thematic objectives:

- R&D&I
- SME competitiveness

These should be supported strongly by the following **secondary** thematic objectives, in order of importance to effective impact delivery:

- Skills and Lifelong Learning
- ICT
- Labour Market Mobility
- Low Carbon
- Social Inclusion
- Environmental Protection and Resource Efficiency.

Achievement of the environmental and social objectives requires the primary objectives to be delivered: research, development, innovation, and SME growth are necessary to create the technology and opportunities needed.

Due to the decreased amount of funding that Scotland will have access to in 2014 to 2020, focus on impact and identifying more appropriate measurement criteria of success should be critical. Scotland needs to ensure that emphasis is given to the key thematic objectives that need to be addressed to deliver the greatest impact for the funds here.

Scottish Chambers of Commerce advocate this tight focus, but consideration should also be given to including the thematic objective of Capacity Building in the supporting, secondary objectives that Scotland will address, to enable programmes to be implemented that will address more broadly the issues faced by micro and small enterprises that are described in point 9 of this consultation.

The Scottish themed funds will only succeed if there is involvement and input from the private sector across each theme, and at every level, from the strategic to the implementation and delivery. Scotland's key challenges will not be addressed without private sector leadership and real partnership and ownership. The private sector provided nearly 78 per cent of jobs in Scotland in 2012, and this figure is increasing year on year while the public sector continues to contract as we all recognise the need to rebalance Scotland's economy. We have all acknowledged that the private sector is the key to creating the opportunities and growth necessary to address the identified challenges creating wealth for all. We must ensure that the funds are appropriately apportioned to ensure that they are being driven directly to the consumer and not funding organisations and processes.

Innovation and development within business is going to be necessary for these challenges to be addressed. Businesses min Scotland therefore need to be fully involved in making decisions regarding fund usage and in monitoring the impact and value of all interventions in terms of job creation, business growth and increased competitiveness incorporating internationalisation.

In addition, there is a need for the three Scottish themed funds to ensure that they are cogniscent of common priorities as specified by the Commission, and also that there is sufficient flexibility for programmes to be undertaken under the auspices of more than one theme. The three themes must therefore not operate in isolation but work together to ensure that their objectives and programmes complement each other to combine to maximise the impact of the 2014 to 2020 funds.

Finally, while the proposed theme descriptors are relatively comprehensive, there is an obvious lacuna with the failure to reference digital infrastructure except in terms of the Social Inclusion and Local Development theme. Digital infrastructure is vital to business growth – and without it, there is no value in any participation strategy as currently proposed under this and the Competitiveness, Innovation and Jobs theme.

Private sector involvement is imperative in ensuring the successful delivery of each of the proposed Scottish Themed Funds. The current proposals retain strategic and operational decision making within a small group of organisations, dominated by the public sector. We understand that the selection of these organisations has been made based on the Scottish Government's assessment of where match funding is likely to come from, with the resulting groups augmented by partners such as Scottish Chambers of Commerce that can bring a particular insight to bear on the theme. We welcome that augmentation and the recognition of our expertise in the areas on which the funds focus.

We are concerned that the current arrangements remain overly dominated by public sector organisations whose access to match funding resource will continue the culture of public sector leading on determination of strategy, and control of programme content, to the detriment of the very SMEs and the representative organisations that are one of the main focuses of the funds' support. Arrangements must be made to ensure that the funds, if they are to support SMEs, are managed in a way that responds to how business works – that the strategies and programmes are flexible and driven by business need, accessible to new entrants with new ideas, and don't stifle the very innovation that it is their key objective to facilitate.

The current Scottish Government's interpretation of "match funding" is by its very nature currently excluding the private sector and thus hampering achievement of the targets. This should be revisited to accept that private sector manpower provided on a voluntary basis should be accepted and included as valid match for European funding. This will make sure that the private sector's leading role in engendering innovation is harnessed to achieve the Funds' aims in Scotland.

Scottish Chambers of Commerce welcomes the recognition that the Scottish Government has provided to us as Scotland's largest and most representative business organisation, in involving us as partners in the strategic delivery structures. SCC has over 25 years experience of strategically and operationally managing European funding successfully.

However, we are concerned that the proposed structures rely on organisations such as ourselves relaying the intelligence and knowledge provided through our local connectivity, rather than providing any direct mechanism for local Chambers of Commerce, or other groups on the ground with the capacity to deliver innovative responses to emerging – and as yet, possibly unforeseen – challenges, will be excluded by the proposed governance and delivery arrangements, and interpretation of match funding. This needs to be urgently readdressed.

Bureaucratic expediency must be balanced with recognition of the role of the private sector and of smaller organisations in delivering the aims of the Funds. We must also be careful to ensure that SDP member organisations are acting in the interests of Scotland as a whole, rather than the interests of their organisation – and build appropriate accountabilities into the proposed structures to achieve this.

Due to the dominance of the public sector in the proposed decision making structures, accountability will only be achieved through the involvement of other stakeholders, including the private sector, in monitoring and assessing the effectiveness of the decisions made and the resulting programmes.

Scottish Chambers of Commerce do welcome the Scottish Government's intention to reduce audit and administration burdens. It stifles impact when too high a proportion of a project's budget is spent on ensuring adherence to audits requirements and other bureaucratic processes, diverting funds and energy away from achieving impact. The smaller the project, the greater the proportionate bureaucratic burden is, when as much resource is required to account for using £100,000 as £1million. With less European funding at our disposal going forward, it is crucial for Scotland that the Scottish Government's good intentions are borne out at every level of delivery, reducing the burden for every organisation involved with these funds.

While the proposed theme of Competitiveness, Innovation and Jobs is the most appropriate for delivering youth employment Initiatives, Scottish Chambers of Commerce are very surprised that the third sector has been suggested as the sole delivery route. We acknowledge the role that the third sector has in this area, but note again that the bulk of job creation in Scotland over the coming years is going to come from the private sector. In addition, the private sector has a key role in supporting young people's employability through the provision of work experience and involvement in demonstrating the career opportunities that exist for young people while they are still in education, making choices about what course to pursue.

Scotland's skills agencies – the Scottish Funding Council and Skills Development Scotland – recognise the importance of the private sector in this agenda. SCC, along with several other private sector representatives, sit on the SFC/SDS Joint Skills Committee. SDS have made great efforts in the last 12 months to step up their engagement with the private sector, entering into a strategic partnership with SCC and working with us on key projects such as the Our Skillsforce website, the Skills Pulse Surveys and the Certificate of Work readiness, in recognition of business's role in the youth employment agenda. The Scottish Government EU Funding Division should follow the lead of the agencies that deal most closely with this agenda and ensure that the contribution that business can make to youth employment initiatives is fully capitalised upon.

Scottish Chambers of Commerce have a record of success in delivering youth employment initiatives that not only get young people into jobs, but also support business growth. For example, the **Education into Enterprise** project (currently under evaluation) designed a simple, user friendly web portal for SMEs to post vacancies for work placements for college/university students. The most successful element of the project was the huge uptake from SMEs. The project meant that students undertook work placements, relevant to their skills, that also helped the business. Another example is our pilot **Graduate Recruitment Incentive,** designed to help address graduate underemployment and skills shortages by using Chambers of Commerce connection to the business community encourage the creation of graduate roles in small businesses, providing £3000 support and also – crucially – free HR support to help the business create these roles. This pilot was aimed at both tackling under/unemployment, and encouraging business growth – necessary for Scotland's economic recovery. Our success in both of these projects has been based on our direct connectivity with the businesses able to provide work placements and create jobs.

With a set of programmes designed to support businesses and economic capacity, it is important that the Scottish Government in managing the Funds is clear about eligibility rules, for example as they relate to State Aid regulations. Changes in policies and regulations through the lifetime of the funds must be communicated timeously to organisations delivering and managing programmes, including those doing so under contract. The Scottish Government must be responsible for mediating with the Commission, and must ensure confidence that the programmes being delivered under its watch comply with regulations.

A common set of reporting procedures will be welcomed by many organisations – including large ones such as the Enterprise Agencies. However, it must be recognised that capacity has built up over the current programmes in administration and management of EU funds, therefore changes should be made only where there is an advantage to the reporting organisation in terms of a reduction in the administrative burden. The commencement of the new programme should not be viewed as a reason to implement wholesale changes, but as an opportunity to make improvements to what exists already.

The importance of private sector ownership of the strategy behind the use of these funds and the programmes they support can not be stressed to strongly. Only with business participation at every level and across all themes can the potential impact of these funds on Scotland's economy and society be optimised.

It is crucial that the Scottish Government ensure that the private sector contribution to achieving the specified targets can be leveraged by using time given to these projects from within the private sector as valid match funding.

We look forward to being involved as the 2014 to 2020 European Funds programme comes into being, and to working with others to help shape the programmes that will be delivered over the coming years.

We recognise the challenges posed by the reduction in Scotland's total funding, and will therefore work hard going forward to ensure that value for money and maximum impact are the key considerations determining how the Funds are deployed.

Written submission from the Scottish Government

Your Committee continues to maintain its interest in maximising Scotland's benefits from Structural Funds and we continue to consider the range ideas posed by your committee as part of our planning and development process.

As you know we promised to provide regular updates on key developments. This update brings us very close to beginning the new Programmes and I would like to take this opportunity to inform the committee on recent activity, as well as updates on central points in your inquiry.

Strategic Delivery - Involvement of all Partners

As acknowledged in the previous correspondence, we note the Committee's strong preference for future programmes to continue the strategic delivery models, but with clear engagement of smaller organisations and their capacity for delivery. These models have ensured greater strategic impact from structural funds and in some cases minimised the management burden that accompanies EU Funding.

Over the summer, we organised a series of Strategic Delivery Partnerships. These workshops have allowed partners within distinct groupings to develop and collectively prioritise strategic interventions that might be supported by Structural Funds. The interventions cover the following themes:

- Competitiveness, Innovation and Jobs – aimed at increasing skills levels, innovation and commercialisation, and SME ability and engagement in investing in their own competitiveness
- Environment, Low Carbon and Resource Efficiency – aimed at environmental protection and improvement; at exploiting opportunities offered by Scotland's environment (e.g. energy production); and ensuring a lower environmental and carbon impact across the economy
- Local Development and Social Inclusion – aimed at ensuring all communities can take part in the increased opportunities created by strategic interventions in the other two themes; and at addressing social exclusion and poverty.

The strategic interventions still need a good deal of refinement, not least to clearly identify the delivery roles for smaller organisations and to ensure that match funding is available to lead partners. There is also still a gap around specific activity to address social incusion and poverty, which the European Commisison will require us to invest in and achieve considerable outcomes in. Representatives from the third sector and social partners, as well as business representatives, have been involved in conversations, and we need to keep them closely involved in this next phase of development and finessing.

Whilst this work is continuing, the interventions will also help to shape the Partnership Agreement for Scotland and act as the basis for the Operational Programmes. An update paper bringing together the previous public consultation and the substance of these strategic interventions will be published on-line, allowing a wider range of stakeholders to engage with the shape of the coming programmes.

Simplification

Simplification continues to be a goal of the European Commission, the UK Government and the Scottish Government in implementing these funds. Whilst the level of alignment we had hoped for across the EU Funds has not materialised in the detailed regulations, we are still anticipating simplification in four specific areas, broadly as follows:

- **Increased use of contracting and commissioning**

Lead Partners will be encouraged to commission and contract as much as possible where this approach can provide a positive alternative. This would allow the programmes to deliver more strategically and affect change more quickly by identifying what is required and gaining direct responses to these requirements. It would be anticipated that there would be added value in this process whereby contractors (which would in many cases be smaller delivery organisations) would be able to bring forward ideas and solutions that may not have been conceived directly.

- **Use of strategic delivery bodies**

Within the delivery partnerships, a number of strategic delivery bodies (lead partners) would be charged with delivering the objectives of the Partnership Agreement nationally and locally. These organisations would have the scale to bring match funding and manage the audit burden, meaning their delivery chains can focus on maximising the impact of their activity.

- **Increased use of standard and unit costs**

Arguably the greatest administrative burden has been on smaller projects and revenue projects which have found it onerous to track a lot of the smaller costs associated with delivery. Widening the use of unit costs, especially for training and revenue projects, and increasing the variety to extend to other funds outwith the Social Fund would assist in refocusing efforts on delivery of outcomes.

- **Increased use of financial instruments**

The aim of extending the scope of financial instruments is to simplify projects which are revenue generating, allowing better cash flow within these projects, and extending the lifetime of the Funds beyond what would be possible through grants alone. Whilst not simple to set up, there are a number of existing models in Scotland which give us a useful basis to consider for extending or re-using.

The role of Financial instruments in 2014-20

The Scottish Government is continuing to assess the applicability of financial instruments to a wide range of policy areas. Clearly the use of financial instruments implies the identification of projects that represent a strong possibility for financial return with any recycled finance thus maximising the impact of the available funds and stretching that impact over the longest possible period.

European Commission requirements for the new programming period now include independent ex-ante assessment and the Scottish Government views this as an opportunity to test the viability of financial instruments as an innovative funding mechanism for infrastructure support in the low carbon, digital and regeneration spheres. The ex-ante assessment will also inform our conclusions on the most appropriate continued application of financial instruments for access to finance - building on the exemplar Scottish Investment Bank - to confirm their suitability as a key enabler in the promotion of new micro-finance or community banking initiatives.

In the context of very high demand for funding in the programming period, it is important that we follow the evidence on where there are good opportunities for returns to be generated and recycled as quickly as possible. We expect to receive the ex-ante assessment early in the new year, and to see Financial Instruments forming a significant part of the new programmes.

Smart Specialisation Strategy

The Committee have been keen to see how Smart Specialisation would impact on the Structural Funds. The Scottish Government has been exploring the Smart Specialisation agenda since its inception at the end of 2011 and have undertaken a series of activities to ensure that Scotland's innovation system is 'fit for purpose' in the 2014-2020 programming period.

Over the past two years we have been using a "Team Scotland" (collective efforts of Scottish Government, Scottish Enterprise, Highlands & Islands Enterprise, Scottish Funding Council and Scotland Europa) to better focus our activities and improve access to and influence of other funding sources in the EU and the UK. This has included influencing the development of our new Entrepreneurship and Innovation framework and the Partnership Agreement, both which will be informed by the principles of Smart Specialisation.

Smart Specialisation has in particular influenced the proposed strategic interventions around research and development, SME competitiveness and skills. These all have strong aspects of focusing in on growth sectors or key regional sectors, either to boost the innovativeness or build on inherently innovative sectors (life sciences, creative sector); and to help businesses in those sectors become global or be 'born global'. These same sectors are then the focus for an intervention around building mid and higher tier vocational and academic skills, ensuring that we build the human capital to match our growth aspirations.

In June the Scottish Government's application to join the European Commission's Smart Specialisation Platform was accepted. That has subsequently provided opportunities for Steering Group members and other officials to present Scotland's Smart Specialisation approach to a wider audience, including seeking opportunities to collaborate with EU Regions around the Smart Specialisation agenda.

Highlands and Islands Transition Status

The Committee were keen to see Highlands and Islands gain transition status, as were the Scottish Government and the region itself, and I am sure you will have been pleased to see this achieved. In addition, the successful funding negotiation with the UKG means that a significant budget will continue for this region.

The current thinking remains that we would have a single Scotland-wide programme for each structural Fund, to allow for a sense of scale in the strategic interventions which are required across Scotland – e.g. around skills or developing the low carbon economy. However, in recognition of the transition region status, we have been working with stakeholders in the region to develop an Integrated Territorial Instrument which would cover additional activity specific to the Highlands and Islands, for example to promote population sustainability or to deal with the additional challenges for business development posed by remote and island geographies.

Cross-border programmes and European Territorial Co-operation

The INTERREG 2014-2020 programmes remain in development. Most have taken firm steps towards selecting their respective thematic priorities to help move operational programme development further forward. However, the strategic objectives for many are yet to be clearly defined and decisions on investment priorities are still to be taken. This presents continued challenges and has moved the timescale for commencing more direct work on identifying specific funding and co-operation opportunities into early 2014.

Our efforts to articulate Scotland's key policy interests at the higher level continue and, through our cooperative assistance in shaping and scoping each individual INTERREG programme, we believe that there is now sufficient progress made and information available for Scottish stakeholders to engage in informed debate on the wider emerging themes and priorities. As a consequence, Scotland Europa, in partnership with Scottish Government, will be holding an initial Scottish stakeholder information event for the new INTERREG Programmes in Glasgow on 21 November, with a second event being organised for Inverness in January 2014.

On-going negotiations and Next Steps

As you will know, the Multiannual Financial Framework continues to face delays in Europe. We now expect a settlement to this by the end of the month, alongside a successful conclusion to the negotiation of the regulatory package which will allow these Funds to proceed and be implemented in Scotland. We are preparing the Partnership Agreement and operational programmes with the aim of being able to submit them as soon as the regulatory environment allows. The planned update paper will cover the broad content of these documents to allow wide stakeholder comment before these are finalised.

Alongside this, we will continue to work with partners to develop and finesse the strategic interventions and their delivery arrangements; and to ensure that guidance, detailed rules and IT systems are in place for a Programme start in the early half of next year. I am hopeful that this will ease the transition period from the current programme to the next, and avoid funding gaps or uncertainty around what these Funds will be supporting in Scotland.

Nicola Sturgeon
Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities

Written submission from the University of the Highlands and Islands (UHI)

1 Introduction

EU support and funding has played a critical role in the development of the University of the Highlands & Islands (UHI), contributing well in excess of £80m in ERDF and ESF grant since the Objective One Programme of 1994-99. This investment, worth over £200m when co-finance is included, has enabled the development of UHI's basic estates and IT infrastructure, course development, learner support and research capacity – allowing the new institution to make a substantial contribution towards regional economic development and playing a key role in the attainment of university title in 2011.

There is a strong role for universities and colleges in the strategic development and delivery of new EU programmes, as identified in the EU's Smart Specialisation strategy. The impact of university provision on regional economic development is particularly evident in the Highlands & Islands; the development of the new European Strategic Investment Funds (ESIF) is, therefore, of particular relevance to UHI. This short paper gives an up-date of this development from 3 perspectives:

a. Regional - UHI working as part of the Highlands & Islands European Partnership (HIEP - all 7 local authorities in the region, Highlands & Islands Enterprise and UHI)
b. Sectoral - UHI working as a tertiary institution with key growth sectors in the Highlands & Islands
c. Simplification – UHI's lessons learned as a Strategic Delivery Body and piloting the use of simplified unit cost models

2 Regional perspective

The Highlands & Islands is the only region in Scotland which qualifies as a transition region, with a GDP per capita of only 84% of the EU average. This has levered in an ERDF and ESF funding package of around €172m for 2014-20 which, along with a proportion of Scotland's EAFRD and EMFF allocations, will be used to promote economic and social development across the region.

There remain distinctive territorial challenges to be addressed, such as the complex geography, including mountains and over 100 inhabited islands, peripherality, distance to markets and low population density. The continued loss of young people also remains a key issue. However, the region also has the potential to make significant contributions to EU 2020 targets, with considerable natural and cultural assets, a growing reputation for innovation – and around 25% of Europe's wind, wave and tidal resources.

In order to maximise the impact of transition funding, HIEP and other regional and national stakeholders are investigating, with Scottish Government, the possibility of an Integrated Territorial Investment (ITI) for the region. An ITI is one of the new delivery tools proposed by the European Commission for 2014-20, aiming to bundle funding from one or more Operational Programmes to implement territorial strategies in an integrated way. The proposal for a Highlands & Islands ITI will operate within the broad context of the national strategic initiatives identified for Scotland, bundling together ESIF activities, but providing a regional focus. It will cover a package of actions to be implemented by the key partners through a shared governance arrangement.

UHI will work with other partners in the ITI to ensure alignment of skills and innovation activities and that they fit the needs and opportunities of the region, whilst also embedding these activities into the national themes.

UHI has also been working with HIEP to produce the Highlands & Islands 2020 Regional Plan, which identifies the following joint regional priorities:

i. Improved connectivity – transport & communications
ii. Develop the knowledge economy through support to growth sectors, particularly renewable energy, as part of a low carbon economy
iii. Skills development

The Regional Plan will help to inform development of the ITI, along with input from other key stakeholders.

UHI hosted a debate on the direction for future structural funds in the region, part-funded through a grant from the European Commission Office in the UK. This was held on 18 March 2013 and was well attended, with a wide range of interests included in the presentations and attendees. It produced the ‘Highlands & Islands 2020 Report’ (copies available) which also set out further direction for the development of the Regional Plan.

There is an excellent tradition of partnership working on the development and delivery of ESIF in the Highlands & Islands; the ITI model offers a way of bringing together priorities, specific challenges and opportunities which have been identified by stakeholders to work in complement with national Strategic Initiatives.

3 Sectoral perspective

UHI has been working with HIE, the Scottish Funding Council and Skills Development Scotland to ensure that activities in Skills and Innovation in the Scottish Government’s Strategic Initiatives fit with regional priorities and capacity - focussing on key growth sectors of **energy, life sciences, SME support, creative industries, food & drink and tourism.**

The Strategic Initiatives developed to date offer exciting new opportunities, with a clear role for colleges and universities across Scotland. They make reference to flexibility in the delivery of activities – so the specificities of the Highlands & Islands may be addressed through tailored plans at local level. For example, in the SDS Skills Strategic Initiative, we might want to place provision in learning centres higher up the priority list than in urban areas, to ensure that people living and working in remote communities have equality of access - but the emphasis on provision linked to labour market requirements and the regional Skills Investment Plan will be the same; in SFC’s Strategic Initiative on Innovation, we might want to look at different ways of bringing key actors together to address business innovation (Smart Specialisation) – but the emphasis on supporting SMEs through business/academic links will be the same.

UHI has made judicious use of EU structural funds since its inception in the 1990s, levering in funding for its basic learning, teaching and research infrastructure. This has worked alongside funding through INTERREG (particularly the Northern Periphery Programme) and other education & training programmes, which have introduced a transnational perspective, allowing the new organisation to learn from good practice in other EU member states.

In June, UHI was awarded a €4m Framework Programme grant for a major project in marine energy, MERIKA, building excellence upon previous ERDF investment. This was the first (and now only) UK award for this strand of FP funding, which is highly competitive and only accessible by Convergence regions. It will fund new research posts and equipment and develop expertise – and provide a platform for further work in this crucial sector for the new 2014-20 programmes, through ESIF and the new Horizon 2020 programme – Smart Specialisation in action!

Discussions with the new FE Regional Board have identified an opportunity to further develop a coherent strategy for skills and innovation across the Highlands & Islands by bringing further and higher education activities in the region together for ESIF.

UHI's engagement across all EU funds has been undertaken in a planned, forward-looking manner, to maximise impact and ensure that investments are targeted towards strategic development. Up until the current programmes, the key target was the attainment of university title. Now that this has been achieved, UHI will build upon previous investment to contribute more back into the region's – and Scotland's – targets for EU 2020. UHI will participate in the delivery of the new Strategic Initiatives, ensuring that the specific requirements for skills and innovation in the Highlands & Islands will be addressed.

4 Simplification

UHI welcomes the commitment by Scottish Government to simplify development and delivery of ESIF for 2014-20 and the more strategic, aligned approach undertaken to date through the Strategic Delivery Partnerships.

As one of Scotland's Strategic Delivery Bodies (SDBs) in the current programmes, UHI was able to package together a range of ERDF and ESF funded activities to address key programme targets. This experience is very much in line with Scottish Government plans for the new Strategic Development Partnerships and is to be welcomed.

The main lessons identified from internal evaluation of UHI's SDB experience to date is that it allowed for much greater forward planning, strategic vision and economies of scale – concentrating efforts on the delivery of quality projects rather than top-heavy, bureaucratic processes.

UHI has piloted the use of simplified unit costing methodologies in the current programme for 2 major projects – Investing in Recovery, which will have funded over 2000 additional undergraduate student places and Postgraduate Research Allowance, which will have funded an additional 12 PhD places. These pilot projects confirm that although technical requirements for developing the unit cost model at the start of the project are onerous, the process for managing and reporting once the project is up and running is considerably simpler than the compliance requirements of timesheets and records of actual costs. For ESF and ERDF revenue projects, this approach is undoubtedly a significant improvement on standard actual cost models in many cases; UHI is working with other Scottish partners on the development of standard simplified unit cost models for use in the new programmes.

UHI is also leading a project on behalf of HIEP, part-funded through Technical Assistance, to identify lessons learned from the current Highlands & Islands Convergence Programmes for ESF and ERDF in order to inform development of the new programmes. The final report is due to be completed in December 2013, however the work to date has already supported the concept of an integrated territorial approach (ITI model) as a way forward to ensuring that the specificities of the region can be addressed whilst still operating within national Strategic Initiatives.

UHI looks forward to using experience and lessons learned from previous programmes, as an SDB and in the use of simplified unit costs to reduce compliance and audit burdens, ensuring that the 2014-20 ESIF maximise impact on jobs and growth rather than bureaucratic processes.

In summary, we look forward to working with Scottish Government, national and regional stakeholders to deliver ESIF in an exciting, new approach, which will bring about smart, sustainable and inclusive growth for the Highlands & Islands, and Scotland.