

CONSULTATION RESPONSE FORM

Question 1 – Are there other areas you think the Partnership Agreement should address?

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 SME's 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 competitiveness 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.

Question 2 – Do you think these thematic objectives will best address Scotland's short-term and long-term challenges?

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.

Question 3 – Do you think there are any other thematic objectives which should be addressed?

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.

Question 4 – Do you think the Scottish Themed Funds will address Scotland's key challenges?

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 in 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 cognisant 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.

Question 5 – How do you think the governance and delivery arrangements will impact on your sector?

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.

Question 6 – How do you think the governance and delivery arrangements will impact on your organisation?

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.

Question 7 – Are there any unidentified governance or delivery arrangements that could aid simplification of the future programmes and ensure that the Structural Funds complement each other?

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.

Question 8 – What other delivery options do you think would be feasible for delivering youth employment initiatives?

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.

Question 9 – What other measures could be taken to reduce the audit and control pressures?

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.

Question 10 – Do you have any further comments on the proposals?

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.