

**Scottish Government Consultation
Proposal for Scottish European Structural and Investment Funds 2014-2020**

Scottish Enterprise Response June 2013

Proposed content of the Partnership Agreement and Thematic Objectives

Q1. Are there other areas you think the Partnership Agreement should address?

Q2. Do you think the thematic objectives will best address Scotland's short-term and long-term challenges?

SE is supportive of the choice of thematic objectives and believes they are appropriate to address Scotland's challenges in line with the Government's Economic Strategy. We believe the Partnership Agreement should set a high level of ambition for Scotland which maximises integration of the funds and focuses on delivering real impact through a more limited range of strategic interventions. Stronger emphasis of the contribution these funds must make to Scotland's competitiveness and internationalisation ambitions should be clearly articulated.

However it is important that sufficient flexibility is built into the Partnership Agreement and Operational Programmes to allow interventions to be refined to respond quickly to changing economic circumstances throughout the programme period. This is not to suggest that proliferation of actions should be encouraged, rather a recognition that the current Operational Programme did not allow us to respond easily to the economic downturn.

SE believes there should be more explicit reference to the use of Financial Instruments (FIs) and how these will need to be considered and designed to support the thematic objectives of the programme. Our view is that Financial Instruments can play a key role in achieving the objectives and provide an opportunity to create sustainable funds which have a long term impact. However, this depends on effective strategic delivery, best achieved through a dedicated separate thematic objective for FIs using a Holding Fund(s) model which builds on Scotland's established expertise that is clearly recognised at the EU and international level - see comments below.

The ESI Funds should not be considered in isolation from the wider range of competitive EU funding opportunities. The choice of thematic objectives and activities should be explained in the context of other EU funds; how they will tackle areas not easily supported under the other Commission managed funds, and will complement the scope of others, such as Horizon 2020, COSME, ERASMUS, LIFE, etc. Explicit reference should be made to complementarity with the European Territorial Co-operation (INTERREG) programmes for which Scotland will be eligible.

The Partnership Agreement needs to make specific reference to the approach to Smart Specialisation in Scotland (S3) and how this is reflected in the choice of thematic objectives and the Themed Funds. S3 is part of the architecture which provides the linkages to wider EU policy and funding. Its presence goes beyond the 'conditionality' and would support and guide the Strategic Delivery Partnerships (SDPs) to define and 'map out' how innovation-oriented investments are linked to wider EU policy and funding opportunities.

SE is actively engaged with the Government and other stakeholders in the Horizon 2020 Scottish Support Framework, and we see the ESI funds playing an important role in complementing Horizon 2020 and COSME, for example by building SME capacity for innovation and collaboration, and supporting the commercialisation and/or implementation of results emanating from projects funded through these programmes.

Reference should be made to the review of the Regional Aid Guidelines, which are likely to require that future regional aid schemes are in line with regional strategies and specifically ERDF programmes. SE as the main delivery agent for regional aid in Scotland, needs to ensure that any conditionality on the operation of regional aid schemes can be achieved.

Q3. Do you think there are any other thematic objectives which should be addressed?

We are firmly of the view that Financial Instruments needs to be given greater priority within the programme.

The European Commission has emphasised that the use of FIs in the 2014/20 Programmes should be given high priority, such that ERDF in FIs should rise from 6% in 2007/13 (up from 2% in 2000/6) to a minimum of 15% across the whole of Europe in 2014/20. In order to further incentivise Managing Authorities to increase the amount of ERDF for FIs, the EC will allow an increase by 10% in the maximum intervention rates where a separate dedicated thematic objective for FIs is identified within the Operational Programme. Given Scotland's EU and wider acknowledged excellence (eg, Scottish Coinvestment Fund (SCF) as an exemplar for EIF Angel Coinvestment Fund, Swedish SCFs, New Zealand and Canadian SCFs) in the development and delivery of FIs, including innovation in the design of FIs, we recommend that a Separate Thematic Objective is dedicated to Financial instruments.

It would be useful to have scope to fund sustainable transport projects, both through ERDF, SRDP and EMFF. Transport has an important role to play both in terms of mobility and connectivity and as a key factor in effectively utilising Scotland's renewable energy resources. SE is working with Transport Scotland and other stakeholders on a Smart Mobility programme, which is expected to generate a number of projects which have significant potential for emissions reduction and economic benefit. Recognising that the transport thematic objective is not a priority for the Scottish PA, there is still significant scope to include transport-led investments within the low carbon, resource efficiency and environment theme, in line with an approach based on low carbon for all sectors, also potentially within sustainable urban and rural development plans.

Q4. Do you think the Scottish Themed Funds will address Scotland's key challenges?

In broad terms, we agree that the Scottish Themed Funds are the most appropriate to address Scotland's challenges, although there is a lack of detail on what lies beneath the broad headings, and what the suggested activities would actually involve. There needs to be a clearer link between the Themed Funds and activity examples which could be achieved through a set of relevant objectives in each Themed Fund.

Some of the activities suggested appear to be linked to the use of specific funds, and if they are to be funded only by SRDP or EMFF would be restricted to rural areas, even though they could be usefully applied in other areas.

In light of the minimum allocation of 52% to the European Social Fund, it will be important to provide greater clarity on the focus and orientation on skills to support the development of key sectors, business innovation, leadership and internationalisation as well as employability support across the three Themed Funds. The need to address "higher" end skills needs could be made more explicit. Targeting of EU investments within specific stages of the Scottish skills 'spectrum' could provide greater clarity and focus. This is linked to the early recommendations of the Innovation Workstream.

Under Competitiveness, Innovation and Jobs, we feel there could be stronger emphasis on internationalisation, and welcome the focus on business innovation e.g. working with the business base to build innovation capacity, engage with and capitalise on research strengths. There should be specific reference to the role of social innovation, demonstrating the need to generate critical mass from key Scottish stakeholders who are active in this area, but who might currently lack the awareness, capacity and/or incentive to operate in a more joined up way.

In terms of taking forward the Themed Funds to the Partnership Agreement and Operational Programmes, the following recommendations are offered:

- Clear objectives and desired outcomes for each Themed Fund should be developed as a basis for agreeing the type of activity which is required.
- Stakeholders will need to be creative and strategic in understanding how Scotland's needs fit with the proposed themes, and ensure a critical mass of funding can be applied to make real progress against key challenges.
- The detailed content of the Themed Funds, as translated into the Operational Programmes, should be sufficiently broad to allow a range of activity within broad interventions, rather than being restricted to a range of specified activities. Experience from the 2007-13 programmes is that overly prescriptive descriptions (e.g. in LUPS ERDF Priority 2) of eligible activity can limit the scope for appropriate and innovative approaches.
- The choice of thematic objectives and activities should be explained in the context of other EU funds; how they will tackle areas not easily supported under the other funds, and will complement the scope of others (see Q1).
- There must be sufficient flexibility within Themed Funds and Operational Programmes to respond to emerging issues and opportunities over the 7 year funding period. This should be clearly recognised and articulated, with the scope to respond with sufficient speed to changing circumstances, not just at mid-term review. This could be facilitated by devolving responsibility for review of priorities to the SDPs.
- In accordance with EC priorities the role of Financial Instruments needs to be stressed. To ensure effective operation of FIs, and to attract significant private sector match funding, the funds need to have critical mass in terms of fund size and to ensure that teams of suitably qualified and experienced staff are available. In this respect, we feel there is merit in looking at two separate funds, one for access to finance for SMEs and one for low carbon / infrastructure investment, as the requirements and skill sets are quite different. To ensure optimal delivery arrangements, Financial Instruments should be considered as a separate priority, delivered via one or two Holding Funds managed by SE using the experience of SIB as the Strategic Delivery Partner for this separate FI priority.
- We note that access to finance and business development and advisory services are currently included under all three Themed Funds. We are very concerned that this could lead to overlap / duplication in services and customer confusion, and feel it must be a key role of the PAMC and SDPs to consider this issue and the most efficient and effective delivery of services to SMEs.

Governance and Delivery

Q5. and Q6. How do you think the governance and delivery arrangements will impact on your sector / organisation?

We recognise that the proposed governance arrangements provide the opportunity for greater engagement in the development, management and monitoring of the future Operational Programmes and SE is fully committed to playing its part in this process. SE is identified as a lead partner, and as such offers the following comments as positive contributions which will help shape the next level of strategic development.

Further details on the Terms of Reference for the PAMC and SDPs and clear guidance to support the development process are essential. There are a number of areas in the proposed governance and delivery structure which need clarification and further examination, including:

- The relationship between lead and delivery partners. Procurement issues will need to be considered (many contracts would be above EU Public Procurement threshold and therefore require open procurement) together with any potential for state aid to the delivery partner.
- The roles and responsibilities of lead partners and the implications for them in taking responsibility for funding, outcomes, delivery, audit and compliance. There is a pressing need to look at the lessons learnt from the evaluation of SDP and CPP approaches and resulting recommendations to support thinking in this area.
- The scope for potential delivery agents to bring their own match funding needs to be considered and clear guidance provided – SDPs should be able to incorporate this in their deliberations and invite appropriate organisations to participate.
- The SDPs need to deliver input to the Operational Programmes within a very short time frame. It is unrealistic to expect the level of detailed negotiations that will be required to be concluded in such a tight timescale, therefore it is recommended that the emphasis should be on identifying the key objectives, outcomes and areas of intervention which can be translated into Operational Programmes, rather than very specific projects and delivery structures.
- Synergies between SRDP and the other funds need to be fully examined and clarified. While SRDP has potential to fund a number of important areas under the Themed Funds, this might be limited in practice by the separate consultation and prioritisation of SRDP. There is also a clear need to look at potential duplication between activities under the funds (e.g. business advisory services, access to finance) and ensure that a plan is developed for effective delivery.

Q7. 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?

There are a number of areas which need further clarification – see above – and some challenges with the proposed model which will need to be addressed, in the short term for the preparation of the Partnership Agreement and Operational Programmes, and in the longer term for effective delivery.

We have highlighted above the importance of a separate thematic objective for Financial Instruments and suggested that SE and SIB would be best placed to manage the Holding Fund(s). We would welcome early discussions with Scottish Government to progress this proposal.

SDPs are generally welcomed as a means of ensuring stakeholder involvement in the development, delivery and monitoring of the programmes, and could play a key role as a bridge between a more strategic approach and operational level activity.

To achieve this, it will be critical to make sure that the composition of SDPs is right, both in terms of organisation / sector representation and experience of individuals, including knowledge of eligibility criteria under different EU funding programmes, combined with understanding of the wider economic development delivery network and the operational priorities within their own organisation and/or sector.

There are a number of key stakeholders who it will be important to engage in the detailed discussions going forward. There was little detail on how this is to be achieved within the Consultation documentation. It will be helpful to see the composition, representation and role of “challenge or support” partner groups more clearly defined as part of the Governance structure.

SDP roles need to be more clearly defined, and the joint Partnership Agreement Monitoring Committee needs to have a clear role, remit and responsibility vis a vis the SDPs. It will be important to have a clear articulation of how read across between the three Themed Funds will be achieved in order to maximise complementarity, avoid duplication and proliferation of similar actions and ensure the desired strategic focus is retained. The PAMC needs to be clearly defined as championing and scrutinising the extent to which this is working.

The initial focus of SDPs should be on identifying the key outcomes, objectives and areas of activity which can be translated into Operational Programmes, rather than very specific project ideas. There will then require to be an ongoing, iterative process, providing flexibility to respond to operational needs and opportunities and refine delivery based on experience.

Equally, there is a need to ensure that, in the translation of strategic level objectives across the themed funds into concrete programmes and actions, sight is not lost of the need to delivery on long-term and strategic priorities for Scotland. With many partners feeding into the process there is a risk that the ‘piece-meal’ approach to EU funding re-emerges as a consequence of trying to please everyone. The PAMC should play a crucial role in overseeing this ‘translation’.

Youth Employment and Structural Funds

Q8. What other delivery mechanisms do you think would be feasible for delivering youth employment initiatives?

In relation to the specific suggestion that youth employment operations be delivered by the Third Sector, this seems out of step with the proposed SDP considerations. While it is recognised that the third sector have an important role, delivery arrangements will need to reflect the different aspects of the challenge, including the need for engagement with and support to businesses.

Audit Control and Simplification

Q9. What other measures could be taken to reduce the audit and control pressures?

Simplification and reducing as far as possible the audit and compliance burden on lead / delivery partners and on final beneficiaries, is essential. SE is particularly concerned about the compliance burden on SME final beneficiaries. This can be largely avoided in the case of a separate thematic objective for financial Instruments delivered via a Holding Fund(s) model as suggested above. As was clarified at an EC organised Experts Workshop on FIs attended by representatives of SE/SIB in Brussels on 20th June 2013.

There are some interesting new ideas being considered by the MEG technical assistance projects, such as fixed payments, which could be helpful, although the potential implications of moving to a more outcome based approach would need to be considered. Outcomes can take some time to achieve, so a milestone approach may need to be developed, and there are potential issues with evidencing outcomes in some areas, including proving cause and effect. This can be particularly challenging for business support.

However, we do not see the proposed governance and delivery structure as a measure to reduce the audit and control pressures in itself. It would more likely to shift the pressures to the lead partners, if they are to take responsibility, and this would still need to be carefully managed through contractual requirements with delivery partners. It will be useful to look at other collaborative EU fund contractual arrangements as part of this process.

It is essential that clear guidance is provided at the start of the programme and that this is applied in a consistent manner. It is equally important that where any changes may need to be made during the lifetime of the programme that these should not be applied retrospectively.

Q10. Do you have any further comments on the proposals?

There is clearly a lot to do within a very tight timescale to move from the proposals contained within both the ESI and SRDP Consultations to the completion of the Partnership Agreement and Operational Programmes.

SE is committed to continued engagement in this process and keen to support delivery of a strong, strategic programme for Scotland. However, it is critical that this works starts as soon as possible and that clear timescales are set and adhered to, in order that participants can factor this work into already heavily committed schedules.

We would like to discuss further with Scottish Government more detail of our suggestions regarding Financial Instruments. Particularly the potential for; use of standard off the shelf instruments so that Scotland can take an EU lead in the delivery of FIs in the 2014-2020 programme; and potential to benefit from the EC's Technical Assistance Platform in the use of FIs.

Clear Terms of Reference for the Partnership Agreement Monitoring Committee, Strategic Delivery Partnerships and Challenge/Support Groups will need to be provided sufficiently in advance of the establishment of these shadow groups. Participants must know the role they are being asked to undertake and have the opportunity to consult more widely within the sector and/or organisation they will represent if this process is to be effective.