

**Lowlands and Uplands Scotland ERDF and ESF Programmes 2007-2013
Programme Monitoring Committee**

NOTE OF MEETING HELD ON WEDNESDAY 25 MAY 2011 IN GLASGOW

Present:

Shane Rankin	Scottish Government (Convener)
Riona Bell	Scottish Funding Council
Alan Boyle	West Fife Enterprises Ltd
Professor Campbell Gemmell	SEPA
David Grahame	LINC Scotland
Douglas Guest	Equalities Commission
Councillor Alasdair Hutton	Scottish Borders Council
Donna Mackinnon	SCVO
Dr David George McBeth	University of Strathclyde
Councillor David O'Neill	North Ayrshire Council

Apologies:

Councillor Kate Dean	Aberdeen City Council
Graeme Hyslop	Langside College
Dame Barbara Kelly	Southern Uplands Partnership
Jim McFarlane	Scottish Enterprise
Councillor Rob Murray	Angus Council
Grahame Smith	STUC
Dimitcho Tourdanov	European Commission, DG Employment
Angela Wiseman	Scottish National Rural Network

In Attendance:

Ieva Zalite	European Commission, DG Regio
Robbie McGhee	Scottish Government (afternoon only)
Trudy Nicholson	Scottish Government (afternoon only)
Brenda Russell	Scottish Government
David Souter	Scottish Government
Gordon McLaren	ESEP Ltd
Susan Napier	ESEP Ltd (Minutes)
Susan Tamburrini	ESEP Ltd
Nigel Thomas	ESEP Ltd

Observers:

Christine Mulligan	Skills Development Scotland
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1. Introduction

The Convener welcomed members to the meeting. A vote of thanks was noted for John Mason who had chaired the previous Committee meeting, and it was hoped that the new meeting format would continue to be successful in future.

Members noted that Stephanie Young had now resigned from the Committee, and that Christine Mulligan would attend as an observer on this occasion. Apologies were specifically noted on behalf of Angela Wiseman who had also indicated that she would be leaving Scottish Government prior to the next meeting.

Whilst Graeme Hyslop and Jim McFarlane had been unable to attend the meeting, they had submitted comments on the papers circulated which would be incorporated as each item was addressed. (Submissions had been circulated to all members).

The Convener drew attention to the main item of business; the Annual Implementation Reports (AIRs) which would provide members with an up-to-date indication of the current position within the Programmes.

The Convener invited round-table introductions.

Prior to commencement of business, members highlighted the need for Committee papers to be circulated in a more timeous manner in order that members could be fully briefed prior to meetings. The Convener acknowledged this was not acceptable in general terms and gave apologies. However various items of business had been on hold pending the outcomes of the recent elections and discussions required to take place with Scottish Government Policy Leads prior to the circulation of papers. The IAB reminded members that the intention originally was for the Committee to be convened for 2 meetings per annum (March and October), however with the AIRs requiring initial acceptance/sign-off by members, an additional meeting had been included in May. The turnaround period between the meeting on 16 March and this meeting had proved challenging on this occasion in the development and issue of papers in the usual fashion.

(David McBeth joined the meeting).

The following is an extract of the submission made by Graeme Hyslop;

"Firstly, I am duty bound to record my disappointment that papers for this meeting were not released until 5.50pm on Thursday 19 May 2011, leaving only three working days for PMC members to consider their contents. Such an approach gives the impression that the ESFD regards the Committee as a forum for, simply, 'rubber-stamping' the recommendations presented to it. This is reinforced by the absence of a minute of the meeting of 16 March 2011. I am confident that the European Commission would share my disappointment at these points and that its position would be that the PMC should provide a mechanism for genuine engagement, consultation and harvesting and consideration of informed stakeholder input. On a more practical note, the absence of a minute of the previous meeting disadvantages those who could not attend: without it, they remain unaware of members' views and this is particularly frustrating for me since it leaves me with no feedback on how my written submission was received by fellow members". Graeme Hyslop.

Members noted that minutes had not been circulated for this meeting as the main focus of business would be the AIRs. Minutes for both March and May would be addressed at the meeting on 26 October 2011.

The IAB agreed to look into members concern at accessing the virtual folder at weekends.

2. Apologies

Apologies were received from Councillor Kate Dean, Graeme Hyslop, Dame Barbara Kelly, Jim McFarlane, Councillor Rob Murray, Grahame Smith, and Angela Wiseman. It was also noted that Dimtcho Tourdanov had been unable to attend at the last minute due to flight restrictions imposed by the recent ash cloud.

3. Update on the Scottish Economy

- Presentation by Duncan Whitehead, Office of the Chief Economic Adviser

The Convener welcomed Duncan Whitehead to the meeting.

Duncan Whitehead thanked the Committee for the opportunity to make this presentation, during such turbulent times for the Scottish Economy. Members noted this presentation would be similar in format to that made by Dr Graeme Roy in 2010, and would give an overview locally, nationally and internationally.

Members noted the negative growth in the 4th quarter of 2010 was due to the adverse weather conditions experienced. Business growth in Japan was also down due to the recent earthquake and tsunami, which was likely to have an impact on Scottish business with Japan. In Europe a very strong result was shown with German and French growth at 1.5% and 1% respectively, although it was anticipated that this may now begin to slow down.

A strong recovery continued in the emerging economies. The recent €80 billion bailout for Portugal was noted. Concerns continued regarding the position in Greece. The USA, until recently, had been on an expansionary policy, however they were now in a process of change. The budget deficit was down from 0.8% in the first quarter.

There were now tentative signs of unemployment levels falling in Scotland and the UK. Whilst UK youth unemployment figures were falling, this was not mirrored in Scotland, which was of critical importance looking forward. The UK average figure remained high. As compared to the previous recession, unemployment figures were falling sooner.

Commodity prices remain elevated with gold at an all time high, although it was down 10% in recent weeks. Silver was currently at a 31year high. There was significant upward pressure on commodity prices.

Initial signs had been shown of banks pulling out of the current position with a slow rise in interest rates. Inflation was now beyond initial targets, although it was likely that this would fall.

Referring to the Scottish Gross Domestic Product (GDP), members noted that figures were always one quarter behind. There was no significant difference to UK figures

although the outlook was uncertain with no evidence of very strong recovery yet. GDP was expected to fall.

The construction industry was experiencing a very strong rebound although the short-term outlook was very dangerous. There was minimal change to the service sector.

Looking at the retail sector, there had been a 5% increase in the Scottish economy. This was due to a number of 'fire sales', and was likely that this trend would reverse as prices increase generally.

Members noted that whilst banks in Scotland had a higher number of rejected finance applications, this was apparently reducing as banks became less risk averse. An agreement had been reached between some of the larger banking institutions and the UK Government. Banks had now tentatively begun to lend to UK companies.

The longer term performance of the Scottish economy was driven by population and employment levels. It was difficult to ascertain at this time the impact upon these drivers. The population driver was stronger in the UK than in Scotland.

It was anticipated that the Government would have a reduced contribution towards the rebalancing of the Scottish Economy.

In summary, the long term recovery was set to continue.

The Convener thanked Duncan Whitehead for a very comprehensive and informative presentation, and invited comment from members.

Referring to the increased challenges to youth employment, members enquired whether there was any additional information on where funds would be targeted. DW advised that the Labour Force Survey would provide good guidance on youth employment, however this was based more on UK data. The Convener thanked DW, and suggested matters may be more positive moving into the new programming period.

4. Draft AIRs 2010 – ERDF and ESF Operational Programmes

The Convener invited the IAB to address this item. Members were asked to note that comments would be invited at the end of the presentation, and any significant matters could be amended within the draft reports prior to submission to the Commission on 30 June 2011. Members were asked to provide comment to the IAB by close of business on Friday 17 June 2011.

The IAB highlighted the common structure adapted within both papers, the format of which had been revised following comments on previous AIRs. Information presented was reflective of activity undertaken in 2010 and described key developments.

4.1 ESF

The ESF Programme had altered completely with no further calls for applications in Priorities 1, 2 and 3, and remaining funds transferred to the new Priority 5.

Members noted the impact of the current economic conditions on these types of projects, and the increased level of monitoring and compliance by the IAB, SG Portfolio Managers and the SG internal audit division.

Within Priority 2, the report now included practical examples of what had been funded from the Programme.

Changes in the context of the Operational Programme reflected the presentation made by DW earlier, in responding to the very difficult economic conditions. The Programme attempted to make innovative use of funds to support the local economy and this was illustrated by the examples given. Considerable detail had been included within section 2.9 (Compliance), showing the additional work undertaken using a flat rate methodology with the detail of Article 60b visits also shown. Error rates in expenditure were very low due to the various stages undertaken, and irregular expenditure was identified and removed at the earliest opportunity. This section of the report would expand in future as the Programme moved to closure.

Section 3 (MA Article 60b Checks), showed the influence of the decision to create Priority 5. Performance appears acceptable due to the revised targets set. Commitment expenditure against targets looks healthy with monies recycled if not required.

Priority 1 showed the rationale for the development of Priority 5 relating to the lower intervention rate within Priority 1. The nature of the assistance was different to what had been assumed in 2007. Although a diverse range of projects had been undertaken, there was a very real need to ensure that the targets of the projects fit the criteria.

Priority 2 also had a lower intervention rate. Level of assistance within this Priority had also decreased, and had been difficult to provide due to the economy.

Priority 5 provided an opportunity to detail the reasoning behind the development of the new priority, and what had been purchased. A level of detail was awaited from Eurosys and will be included in future AIRS.

Referring to the Coherence and Concentration section of the report, members were informed that this highlighted key policy priorities on how ESF monies were disbursed. There was also a need to provide detail of respective developments to the Policy Reform Programme. The Commission had indicated that they would be keen to also see more detail regarding the projects undertaken.

Within the Added Value section of the report, and in response to a suggestion from DG Regio for the ERDF AIR further detail will be included and the any key aspects highlighted.

Section 8 (Information and Publicity) highlighted the key events attended by both partners and Commission representatives.

Members attention was drawn to the new Section 9 (Promotion of Partnership) which indicated how partnerships were developed and the influence they had on business.

The Convener thanked the IAB for this informative overview of the ESF draft report, and invited comments from members.

Referring to Priority 5, members enquired whether Priorities 1, 2 and 3 would be fully reported, and would Priority 5 be shown as stand-alone. The IAB confirmed that a number of projects were due to conclude in 2011. In this regard, members suggested it would be informative to see comparisons on how projects had performed. The IAB advised that whilst there were some lag issues with final claims, the overall picture would become clearer. Scottish Government advised there was a need to finalise more final claims hopefully by October 2011, whereafter fuller comparisons could be made.

The Commission thanked the IAB for an informative report, and suggested that within the Socio Economic Analysis and Policy Context, it would be helpful to see links to the activities and the priorities of the Operational Programme, and also how ESF has adapted to policy changes. The IAB advised that practical examples had been included within Section 3, although this could be highlighted. The Commission noted this comment, and added that additional project analysis with policy/socio economic impact could also be linked into each section.

The Convener suggested that the rationale behind the changes to the Programme be included within the report i.e. how the Programme was responding to changes in Government priorities and policy. The IAB advised that this had been included within Section 3, however discussions would be held with the Commission regarding the level of detail required.

Referring to the impact of the Programme, partnerships and geographical areas covered, members enquired whether there was sufficient information to justify a greater impact with different intervention rates, and where it was possible to anticipate the future position of the Programme. Further detail in this regard would be helpful. The IAB advised that activities were in cluster areas, but this gave no guarantee.

With regard to the CPPs and the partnerships therein, members requested an overview on whether partnerships were narrowing or broadening and measurement of their impact. The IAB agreed that this could be included. The Committee advised that it would be helpful to see within the narrative explanation of how and why partners were selected. In referring to Priority 5, the IAB explained that the Strategic Projects had been established across a variety of sectors.

4.2 ERDF

The IAB drew attention to the Ministerial Foreword which provided an outline of how the Programme had been implemented. Specific areas of interest were the low carbon agenda, JESSICA Fund and Scottish Investment Bank Loan Fund.

Referring to Section 2 (Overview of the Implementation of the Operational Programme), the IAB highlighted the common information between the two AIR reports, and drew attention to the practical examples included.

Members were advised that that there continued to be reference to the use of funds in relation to the Lisbon Codes, with 81% of Priority 3 funds being spent on Lisbon activities. Annex 4 provided a more detailed analysis.

Members were referred to Section 3, where the continued activity in Priorities 1-4 was noted. There continued to be a strong allocation of funds to Priority 1 where additional new activity was being funded. Referring to the ESF report, the IAB

acknowledged the additional information requested for this section by the Commission.

Members were asked to note that in general, targets were less than anticipated. The number of SMEs was similar to ESF, although unfortunately the level of activity within the different interventions was less.

Referring to Priority 2, it was noted that additional funding would be provided to SMEs. Regarding Priority 3, a range of indicators had been selected. Significant work has been undertaken on Eurosys thus improving the integrity of the data available.

The Convener acknowledged the significant changes within the Programme, the response required by the IAB, and also highlighted the level of change that may be required for the next Programme. The Convener thanked the IAB for the presentation and invited members to comment.

Referring to unemployment in rural communities, members suggested that the figures quoted were not realistic where urban criteria had been applied to rural figures. Whilst some individuals may be considered under-employed, they may be holding down 2 or 3 jobs which was not reflected in the figures quoted.

The current deadlines for ERDF Priority 4 remained a concern.

With reference to the ERDF AIR (page 83), members felt that the detail quoted relating to VisitScotland was somewhat generalised as a number of rural initiatives were developed and implemented at rural levels. Other members were in agreement.

Members were disappointed that key issues and processes surrounding the Horizontal Themes had not been included within the reports. The IAB advised that extensive detail had been previously provided on embedding the Horizontal Themes, and had not been included on this occasion in order to avoid repetition, although it was perhaps the case that there was nothing new to present.

In addition to the previous item, Members raised concern that mainstreaming had not been accomplished. The IAB responded that unfortunately they had recently had neither the time nor the resources in place to undertake implementation. However, they assured members that a meeting of the Key Policies Group would be convened at the earliest opportunity to progress matters. It was also of note to members that the IAB was developing an accredited training course in order to assist individuals to act as animateurs in helping to promote the mainstreaming of the Horizontal Themes within their organisation. The representative of SEPA indicated an interest in assisting in developing this area.

Members referred to a number of audit issues which had been raised within the reports, and enquired regarding the consequences of those matters highlighted. The IAB advised that these had been identified by SG internal audit. SG advised that these would not be published as they were not systemic issues, however the need to demonstrate areas of common difficulty among sponsors was acknowledged.

Members thanked the IAB and SG for their responses to the matters raised. The Convener reminded members that any further comments on the draft AIRs should be emailed to the IAB by close of business on 17 June 2011.

The Committee noted the content of the reports, and agreed to provide feedback prior to the completed return being submitted to the Commission on 17 June 2011.

5. Financial and Physical Progress Report on the Implementation of the ERDF and ESF Programmes

The Convener invited the IAB to address this item.

A summary of key headline statistics were provided as follows;

<u>ERDF Programme</u>	<u>May 2011</u>	<u>March 2011</u>
No. of Approved Projects	188	164
Total Approved Grant	£273,211,714	£252,849,989
Total Grant Paid	£102,329,302	£ 93,554,087

<u>ESF Programme</u>	<u>May 2011</u>	<u>March 2011</u>
No. of Approved Projects	308	311
Total Approved Grant	£238,393,452	£238,070,249
Total Grant Paid	£ 82,333,230	£ 64,224,483

Progress in Achieving N+2

ESF Programme

N+2 Target	£59.99m
ESF Grant Paid	£82.33m
ESF Grant Paid and 20% verifications completed	£63.90m

ERDF Programme

N+2 Target	£ 83.57m
ERDF Grant Paid	£102.33m
ERDF Grant Paid and 20% verifications completed	£ 78.78m

On the basis of claims processed and the 20% verifications completed to date N+2 has been achieved for ESF and should be achieved for ERDF by the end of June 2011.

Highlighting some of the finer details, it was noted that whilst there was £51.2m ERDF grant funding still available, it was likely that this would alter in future.

Members noted the significant difference between ESF and ERDF final claim figures. However, members were reminded that the ESF Programme had been front-loaded, and whilst current underspends sat at 2.33%, it was as yet too early to predict how this could change. Referring to the inclusion of loan and equity funds the IAB highlighted that once this had been included, it could

not be recycled. Consideration would also require to be given to building in potential underspends.

With regard to the ERDF Programme, which had been end loaded, there was only a small window of opportunity to recycle any remaining funds.

Moving to the implementation of the ESF Programme, it was noted that 98% of funds had been committed to projects. Reported underspends were 13.66% of the approved grant figure.

In concluding, Members were asked to note the increase in grant funding to the Maryhill Burgh Halls project. (LUPS/ERDF/2008/2/3/0313).

The Convener thanked the IAB for their presentation and invited Committee members to comment.

In referring to the Scottish Enterprise Strategic Delivery Body at Annex 3, members were frustrated at the lack of information on what was being achieved, and it was felt that the previous report made by Scotland Europa, had also been lacking detail on the activities or intentions. Members enquired when a more detailed report would be available. SG agreed that whilst the previous presentation had not gone into the level of detail expected, Scottish Enterprise would again be asked to present to the Committee and a specific outline the level of detail expected would be provided. Members welcomed this action, and emphasised the need for full transparency, and also a significant level of detail on indicators. The Convener suggested that contact be made with Scottish Enterprise requesting copy of a report detailing action and activities to be received by end of July 2011, for circulation to members after which the Committee could decide whether a further presentation would be required at the October meeting.

The Committee noted the content of the report.

6. Exceptional Projects Procedure – Consideration of ERDF Strategic Projects

The Convener invited the IAB to address this item.

The IAB highlighted the following projects which had come forward;

6.1 ERDF Priority 1 – Research and Innovation

- 6.1.1 'Edinburgh Centre on Climate Change', University of Edinburgh, (LUPS/ERDF/2011/5/1/0033). ERDF Grant Request £1,624,000.

- 6.1.2 'SAHSC Industry Support Programme', University of Glasgow, (LUPS/ERDF/2011/5/1/0034). ERDF Grant Request £344,569.

Both ERDF Priority 1 applications scored highly, therefore there was no need to convene the Advisory Group, and both applications were recommended for approval.

6.2 ERDF Priority 2 – Enterprise Growth

'South of Scotland Business Competitiveness Project', Dumfries and Galloway Council, (LUPS/ERDF/2011/4/2/0032). ERDF Grant Request £584,814.

This project had presented to the South of Scotland Global Grants Body, who had determined that it was more suitable for inclusion in ERDF Priority 2. Again, this project scored highly therefore there was no need to convene the Advisory Group, and this application is recommended for approval.

The Convener thanked the IAB for their overview of the projects, and invited members to comment.

Referring to the Edinburgh Centre for Climate Change project, Members commented that whilst £5m had been dedicated to this project, there were some concerns regarding its viability and sustainability in relation to other similar projects. SG advised that this project had undergone an intense review and was proven to stack up, however further detail on this could be discussed offline. The representative of SEPA, indicated a willingness to attend this meeting.

Members raised concerns regarding how strategic the SAHSC Industry Support Programme was. SG advised that this project had come to the fore as a reaction to the withdrawal of TMRC. It was a higher value initiative, but issues with match funding in year one had brought it to the Committee's attention. Members cautioned against setting precedence for similar projects in future.

The Committee Agreed the Recommendations.

7. Options for Prioritising and Targeting the Balance of Funds and Reported Underspends under the ERDF Programme Priorities

The Convener welcomed Robbie McGhee and Trudy Nicholson from Scottish Government to the meeting.

Whilst the papers presented by the IAB in the morning had already given an outline of the current position, the Convener recommended that each proposal be addressed independently.

The Convener then invited SG to address this item.

SG apologised for the lateness in issue of this paper, however this had been due to the recent elections and the need to fully consider any implications from the manifestos therein. Following the elections, SG policy leads had met with potential partners to develop priorities and to identify areas of match funding, however these areas were not of exclusive focus.

Ministers had been clear on their continuing focus on the low carbon strategy. SG would circulate the specifications for the funding applications. A general summary of the recommended way forward for the priorities was as follows;

ERDF Priority 1 – Research and Innovation

Recommendation. Continue the focus on activity that will support research, innovation and commercialisation of low carbon outcomes with a particular focus on offshore wind, wave and tidal technologies (marine energy). However, we should keep open the option of funding other projects that are strategically important. There is currently £8.6m unallocated funding within this Priority.

P1 Feedback

Members welcomed the focus on marine energy, however raised concern that this would only be implemented on the East coast. Regarding the potential development of wind turbine initiatives for both coasts, Members enquired regarding timescale for these projects. SG highlighted the need to ensure Scottish companies bought in to this initiative. Members enquired whether these initiatives would be technology based or servicing/infrastructure based. SG advised that it was no longer possible to fund the infrastructure of ports.

Concern was raised by Members regarding the potential for double funding, and interest was shown regarding the selection criteria for these projects in order to ensure the maximum impact was achieved. SG reported that talks were underway with the Technical Strategy Board regarding potential funding streams, and members were assured there would be no double funding. An initial draft of selection criteria had been compiled, and it was possible to issue this to interested Members.

The Committee Agreed the Recommendations for Priority 1.

ERDF Priority 2 – Enterprise Growth

Recommendation. Use future underspends from across other Priorities to meet a potential shortfall in the Scottish Co-investment Fund in year 2013/14. Defer a decision on the use of the funds currently available until the new Ministers make decisions on the future of business support in Scotland. Members noted that it was too early to commit £5m to SE currently, as there was some uncertainty over the level of future demand. Funds earmarked for Business Gateway would also be put on hold until there was proof of further development and added value. Both SLAED and COSLA had participated in

a joint report on this Priority. There is currently £4.2m unallocated funding within this Priority.

P2 Feedback

Whilst Members agreed with the position regarding the SCF, it was of note that other funds could also benefit in this area, for example the West of Scotland Loan Fund (WoSLF).

Referring to the position with Business Gateway, Members welcomed the prudence in relation to added value and match funding.

SG were in regular contact with Andrew Dickson at the WoSLF, and acknowledged also that SE were not the only players in this field.

Members enquired regarding the timescales for additional information coming forward on the position. SG advised that it was likely to be the third quarter of 2011. Although information would not be available by the October PMC, forthcoming projects would not be held back for the next scheduled round.

The Committee Agreed the Recommendations.

ERDF Priority 3 – Urban Regeneration

Recommendation. Change the Programme Priority to remove the requirement for exclusive SME end use of ERDF funded business space. Target remaining funds on projects to encourage the development and use of sustainable public transport and also on the rehabilitation of brownfield sites. Whilst no new applications, for the development of new business space or CHP and energy efficiency measures, would be accepted into the current funding pipeline, SG would continue to work on current applications with project sponsors in order to ensure compliance. Recent discussions with the Commission regarding this Priority had been very constructive. SG pointed out that whilst transport may be the main driver within this Priority, it would not be possible to re-direct all remaining funds to the JESSICA initiative. DS pointed out that the recommendation for this priority is to target remaining funds on the two themes as outlined in the paper. These are: projects that encourage the development and use of clean sustainable public transport systems and projects that invest in the rehabilitation of the physical environment (decontamination and servicing brownfield sites) but only where the end use of the land is linked to ERDF eligible activity. The Convener pointed out that the State Aid Unit within the Structural Funds Division at SG has been significantly scaled up in order to continue to provide advice to the public sector across Scotland. However, he also pointed out that in general this advice tended to be retrospective. There is currently £16.7m unallocated funding within this Priority.

P3 Feedback

Members noted disappointment that there continued to be state aids barriers for energy efficiency projects and enquired if there was a 'de minimis' level i.e. projects which were below a certain value may not represent a state aids risk. SG responded that the costs of these projects takes them above the state aids limits. In addition, he highlighted that the crucial issue for state aids is to identify who owned potential project assets. It was also imperative to identify exemplar projects, although this may prove difficult. The finer detail would continue to be bottomed-out.

Whilst Members acknowledged the difficulties in identifying energy efficiencies in Scotland, SG highlighted the potential to sign-post projects to the JESSICA UDF Manager for consideration.

The IAB reported that BIG Lottery had established a £15m JESSICA Trust, however this was aimed at supporting community regeneration and to help create community owned and managed assets. This fund could prove an alternative funding source for some projects that were unsuitable for Priority 3.

SG would continue to work with the Commission to remove SME restrictions. The Commission were keen not to lose the focus of this Priority.

The Committee Agreed the Recommendations.

ERDF Priority 4 – Rural Development

Recommendation. SG reiterated that this was indeed the last chance for Priority 4, given the extremely poor absorption rate. The purpose was to change the Programme Priority to allow investment in rural broadband connectivity, and a proposed increase in business space targets to meet current demand. Referring to the broadband initiative, SG explained that this would identify areas where other networks are unable to provide coverage. Whilst funding had been earmarked and discussions were underway with local authorities and enterprise agencies, it was of note that it would cost in the region of £100m to address this initiative fully across Scotland. Similar successful projects had taken place in Cornwall, North Yorkshire and Wales. There is currently £21.1m unallocated funding within this Priority.

P4 Feedback

Members welcomed the news that SG policy leads were involved in deliberations, and suggested that the agencies involved be widened to include local health boards who were currently trying to deliver e-health and other initiatives within rural communities. In addition, Members suggested that the voluntary sector be invited to become involved given the level of its delivery in these areas. Members also recommended that a quality impact assessment be undertaken. In general, Members welcomed the new developments for city and rural regions.

In referring to the examples of broadband success, the Commission advised that specifically in Cornwall, these projects were supported under Convergence funding. There was a need to manage expectations and ensure the primary focus was on the connectivity of businesses.

Members enquired regarding the potential for colleges to be involved in the broadband initiatives. SG advised that the focus for ERDF support would be on SME/business usage.

Following a previous request from SG to enquire regarding potential projects from a University perspective, the representative from University of Strathclyde advised that whilst minimal feedback had been received, it was likely that white-space projects would be the best fit. There were potential projects for Priority 4, although they would require modification or may be better suited to Priorities 1 and 2, also with some modification.

Certain Members were aware of Priority 4 projects under development seeking funding which were in danger of running out of time, and the implications of the current discussions would require to be reiterated to them. It was acknowledged that people were generally lured away to bigger towns and cities for work, so in this regard Members welcomed the opportunity to retain employment locally.

The Convener reiterated the need to ensure forthcoming projects were of sufficient quality.

The Convener acknowledged the feedback from Graeme Hyslop regarding the virement of £50m to Priorities 1 and 2.

Members would be keen to hear from Ofcom regarding the specifics on what would assist the current market, and feedback on what a proposed approach could be. SG responded that whilst Ofcom did work across the UK, unfortunately they had no interest in two thirds of Scotland due to legislative difficulties.

The under-performance of Priority 4 in general was of significant concern to Members. SG concurred, but added that whilst it may require more than one initiative to resolve current under-absorption, it was anticipated that an overall solution would never be found. Following discussion it was agreed that an absorption capacity study be undertaken to identify the issues of Priority 4 for future reference.

The IAB highlighted that every effort had been made to increase activity under Priority 4 through workshops and focus groups, however the economic conditions had evolved significantly from Programme inception.

The Convener thanked SG for their comprehensive overview of the position, and Members for their informative and helpful feedback.

The Committee Agreed the Recommendations and agreed that SG/IAB commission a Priority 4 – Rural Development absorption capacity study.

8. Options for Prioritising and Targeting the Balance of Funds and Reported Underspends under the ESF Programme Priorities

The Convener invited SG to address this item.

SG summarised that previous meetings had agreed the creation of the ESF Priority 5 strategic skills pipeline. At the 16 March 2011 PMC, an update paper was presented, but deferred by Committee as it was felt that further detail was required before a final decision could be made on the future of funds. Unfortunately, the Managing Authority consider that decisions cannot be made at this time regarding the future use of £33m, as this funding may not be available.

SG suggested that Priority 5 as it stands be permitted to run to conclusion, after which time the Committee may choose to focus more on long-term unemployment. Members were asked to note the proposal to ringfence £500k as a buffer for any exceptional projects coming forward in a response to specific local economic challenges. All present noted that some stark decisions required to be made by Committee, however it may be more prudent to defer this matter to the October PMC for a fuller picture again to be established.

The Convener thanked the SG for their frank summary of the position, and invited Members to provide feedback.

Referring to the £33m figure quoted, Members enquired where this figure had been quoted from i.e. was it in relation to original Priority 5 bids. Members were also of the impression that expressions of interest were to be requested prior to the October PMC. SG suggested against giving false expectations to project sponsors regarding the availability or otherwise of funding at this time.

Members added that many people were supportive of Priority 5 and its purpose to create stability within the Programme. Regarding the potential for CPPs to use the underspend to extend project lives, Members would rather see that only those projects assessed as being successful should be supported. SG advised that the funding given to each project sponsor was a total figure, and whilst it would not be increased, it did permit a level of flexibility vary allocations to expenditure headings.

Referring to the number of projects involved at Priority 5, the IAB asked Members to note that where some initial projects had failed, others had been introduced to maintain balance.

Members highlighted that the CPPs had used their monies to lever in match-funding, and if this was not forthcoming it gave concerns for the future of small Third Sector projects. There was a need for more cognitive information and a

recognition of the other potential dimensions. SG reiterated that if there was no solid case for underspends to be vired to other Priorities, then it would be transferred into Priority 5.

With regard to match funding for 2012/2013, it was suggested that there was a need to take stock of the Spending Review in September before any further decisions could be made. The Convener confirmed that this review would take place on 20 September 2011.

Whilst the recommendations were approved, the Committee agreed that a more detailed report be submitted to the October PMC for consideration.

9. Any Other Business

There was no other business.

10. Date of Next Meeting

The next meeting would be held on 26 October 2011. Members were asked to note that unless otherwise advised, this meeting would take place in the Menzies Hotel, Washington Street, Glasgow (as per today).

The Convener thanked all present for attending and brought the meeting to a close.