

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

**NOTE OF MEETING HELD ON
WEDNESDAY 27 MAY 2009,
AT THE TEACHERS BUILDING, GLASGOW**

Present:

Dr John Rigg	Scottish Government (Convener)
Riona Bell	Scottish Funding Council
Councillor David Berry	East Lothian Council
Alan Boyle	West Fife Enterprises Ltd
Liz Connolly	Scottish Enterprise
Councillor Kate Dean	Aberdeen City Council
David Grahame	LINC Scotland
Councillor Alasdair Hutton	Scottish Borders Council
Dharmendra Khanani	Big Lottery Fund
Danny Logue	SDS (afternoon only)
Donna Mackinnon	SCVO
Dr David George McBeth	University of Strathclyde
Councillor David O'Neill	North Ayrshire Council

Apologies:

Professor Campbell Gemmell	SEPA
Graeme Hyslop	Langside College
Dame Barbara Kelly	Southern Uplands Partnership
Grahame Smith	Scottish Trades Union Council
Angela Wiseman	Scottish National Rural Network

In Attendance:

Koen Delanghe	European Commission, DG Regio
Dimtcho Tourdanov	Desk Officer, DG Employment
Mabel Hildebrand	Scottish Government
Nigel Lindsay	Scottish Government
Billy McLaren	Scottish Government
David Souter	Scottish Government
Gordon McLaren	ESEP Ltd
Susan Napier	ESEP Ltd (Minutes)
Nigel Thomas	ESEP Ltd
Susan Tamburrini	ESEP Ltd

Observing:

Laura Biolatto	Finance Officer, DG Employment
Mark Ashton	Scottish Government
Marc Vermyle	European Commission, DG Employ

1. Introduction

The Convener welcomed everyone to the meeting, and introduced Dimtcho Tourdanov, Desk Officer, DG Employment who was replacing Marc Vermyle, and Laura Biolatto, Finance Officer, DG Employment. The Convener gave a vote of thanks to Marc Vermyle for his commitment to the LUPS PMC and wished him well in his new post.

The Committee noted that a presentation updating the current position with the JESSICA initiative would be made by Steven Henderson and Sarah Evans of Ernst and Young, and Robbie McGhee of Scottish Government. Mark Ashton of Scottish Government would attend the afternoon session to address the paper on Post Approval Compliance System – Compliance Up-Front. Round-table introductions were thereafter invited.

Prior to commencement of business, the Convener drew attention to a number of papers which had been tabled for information purposes:

- Financial and Physical Progress Report on the Implementation of the Community Planning Partnership ERDF and ESF Projects by ESEP following an action point from the March meeting.
- Various papers from the European Commission regarding the Economic Recovery Plan relating to an action point from the March meeting.

2. Apologies

Apologies were received from Campbell Gemmell (SEPA), Graeme Hyslop (Langside College) who provided written comments which were tabled, Dame Barbara Kelly, Grahame Smith (STUC) and Angela Wiseman (Scottish National Rural Network). It was noted that Riona Bell (Scottish Funding Council) would join the meeting late, and Danny Logue (Skills Development Scotland) had submitted apologies for the morning session.

3. Minute of Meeting held on 18 March 2009

The minutes of the previous meeting on 18 March 2009 were approved.

4. Matters Arising

The Committee agreed that the note of the previous meeting was factually correct. The following points were raised:

4.1 Update on the Scottish Economy (Item 5.1 from 18/03/09 Note)

The Commission tabled documents in response to a request for additional information on the European Recovery Plan discussed at the March meeting. Specific areas of interest were highlighted for Committee members.

The Committee noted that the widening of scope at the end of April 2009 of eligible activities for ERDF Priority 3 with regard to the JESSICA initiative would not be retrospective to 2007.

The Convener introduced correspondence which had been received from Graeme Hyslop (Langside College Principal). This suggested that a simplification of regulations pertaining to the introduction of a flat rate charging process be considered.

Scottish Government would develop a paper addressing the main issues and way forward in relation to guidance from the Commission. It was anticipated that this information would be circulated for information in the summer.

Graeme Hyslop had also requested clarification on Scotland's representation on the Member State Working Group on Simplification. The Convener advised Committee that the UK representation was through a senior official from at CLG with whom the Scottish Government was in regular contact.

4.2 Progress on Physical and Financial Implementation of all Approved Projects ESF and ERDF including CPPs, SDB and South of Scotland Global Grants (Item 6 from 18/03/09 Note)

Further to a request by Committee Members at the March meeting, the IAB tabled a paper updating members on progress with the CPPs.

4.3 Proposed Changes to LUPS ERDF Priority 4 – Rural Development (Item 10 from 18/03/09 Note)

A productive meeting had been held between the Commission and Scottish Government in April. It was noted that there was a need to ensure that any supported activity undertaken in Priority 4 did not clash with the Rural Development Programme and also that undertaken by DG Agriculture.

A further meeting had been held between Scottish Government and the Scottish Rural Development Network where the scope of Priority 4 and the Scottish Rural Development Programme had been agreed.

Following agreement with the Commission, a paper addressing proposed changes to both Priority 4 and Priority 3 would be issued. It was anticipated that this paper would widen the scope of Priority 4.

(Councillor David O'Neill joined the meeting).

5. Draft AIRs 2008: ESF and ERDF Operational Programmes

The Convener advised that these reports followed the reporting format laid out by the Commission in conjunction with Annex 28 of the Commission Regulations.

The IAB highlighted the addition of new information at Section 2, and added that, where possible, projects which were examples of Horizontal Themes best practice had been included in the report.

(Dharmendra Kanani joined the meeting)

With reference to section 3 of the reports, the IAB had since met with the Commission to discuss certain points regarding admissibility and to agree a more 'user friendly' version which would allow an update on commitments to be presented in the final submitted version of the reports.

The Committee noted that work was already underway on developing a similar reporting mechanism for the Global Grants Scheme in the South of Scotland. It was anticipated that an update on progress would be made in the 2009 Annual Report.

Committee members acknowledged and welcomed the more user friendly format of the reports.

(Riona Bell joined the meeting)

Whilst the Commission were happy with the new structure, they highlighted the following issues:

5.1 ESF:

Chapter 2.1 and Chapter 3 – Duplicate tables had been noted. The IAB advised that, in future, forecast commitments would be presented at chapter 3. The submitted tables in the agreed format would instead be provided as an annex.

Chapter 2.4 – Target Groups (availability of information). The IAB advised that they thought, at present, that not all the information was currently available from the €UROSYS system; however, they acknowledged that a firm date was required to be set for availability of this information.

Pages 36 and 37 – Project examples given here are ERDF which is confusing. The IAB advised that this had been included for comparison purposes only, but would be removed and replaced with ESF examples.

Chapter 2.3 – The problems encountered which led to changes approved in the Operational Programme should be outlined here along with the specific changes made to the Programme, and referenced in other paragraphs.

Chapter 3.1 – The Commission would like to see forecasts and targets reached identified at this section i.e. the target for 2008, and what had been achieved. The IAB agreed to expand the analysis to take this into account.

Section 6, Technical Assistance – It was noted that Technical Assistance information was minimal within the financial tables with no budget breakdown indicated. The IAB agreed to source this information from Scottish Government and quantify it for submission on 30 June 2009.

Members enquired whether ISCEDs (required in the Commission Regulation) were being converted into SVQs and included within AIRs as a success measurement. Scottish Government agreed that the “Notes for Applicants” provided a conversion table.

5.2 ERDF

In general the Commission were happy with this paper. With reference to Community Planning Partnerships, the IAB agreed to ascertain whether spend was currently on track.

The Commission also highlighted the need to submit tables relating to the Lisbon targets and analysis by dimension in the final report.

The Convener asked for additional comment from Committee members.

Chapter 2.1.6, Tackling Poverty, members noted that applied measures did not take into account rural areas. Scottish Government agreed that this would be included in future.

Chapter 2.4.2, Economic Development, members enquired whether a thorough audit would be carried out on the promotion and facilitation of the 'Homecoming' event. It was reported that Homecoming had not featured at certain recent events in New York and Canada.

(Councillor David Berry joined the meeting).

The IAB indicated their willingness to accept additional comments within the next month. These should be submitted to Nigel Thomas in the first instance.

The Convener thanked the IAB for the presentation. Subject to the appropriate changes being adopted for resubmission to the Commission by 30 June 2009, the Committee approved both papers.

The Committee approved both papers subject to technical changes discussed.

6. Study Report and Recommendations on a JESSICA Fund for Scotland

Following approval at the 18 March 2009 meeting, the Scottish Government had made significant progress with this initiative and a presentation would be made to Committee by the consultants Ernst and Young on progress to date. This would be followed by the associated paper, presented by Scottish Government. The Convener apologised for the short notice with which the report had been circulated prior to the meeting, this being due to the JESSICA Steering Group having met on 19 May 2009.

The Convener welcomed Steven Henderson, Sarah Evans (Ernst and Young), and Robbie McGhee (Scottish Government, Regeneration) to the meeting.

Mr Henderson gave a comprehensive presentation highlighting points of note from the report circulated. In summary, Mr Henderson advised that a JESSICA Fund was a viable option for Scotland. It was anticipated that open calls for bids could take place as early as the first quarter of 2010.

The Convener thanked Mr Henderson for the presentation, and invited discussion from the Committee.

Committee noted that the total proposed fund value was £62.5m. The ERDF input would be £25m (40%) and a requirement of match funding of £37.5m. However, it was noted that this could also lever additional investment from the EIB (pound for pound) against the ERDF contribution.

Members enquired whether the JESSICA Fund would have an adverse affect on the work of Scottish Enterprise. The PMC Committee member from Scottish Enterprise advised that Scottish Enterprise initiatives were funded from Priority 1, with JESSICA funded under Priority 3. Scottish Government added that Scottish Enterprise could also benefit from the JESSICA initiative.

Committee members enquired regarding the expected level of return, and how this was reached. Mr Henderson advised that whilst the Welsh JESSICA initiative had a projected 15% rate of return, it was anticipated that the Holding Fund Manager would develop a balanced portfolio approach with different rates of return dependent on the type of project. The EIB would develop a long and short-term portfolio, with the overall target for breaking even.

The Committee enquired regarding displacement costs relating to Priority 3. Mr Henderson advised that the economic impact assessment would include general displacement and if

significant would have lower scorings. Financial displacement was in addition to that already available, and would broaden the opportunities of Priority 3. It was hoped that this would complement and support existing projects to free up areas of grant for smaller projects which may not, under normal circumstances, qualify for funding. Whilst it was noted that work was already underway on the initiative, Mr Henderson believed that the targets were achievable.

Those present noted that the JESSICA fund was sustainable and a very powerful source of funding.

The Convener invited Scottish Government to present their paper.

It was noted that there had been a high level of buy-in from the JESSICA Steering Group members, who had also indicated that they were keen for PMC members to be involved in the development of the initiative. Steering Group members had specialist knowledge in the delivery of the JESSICA initiative.

Discussions were currently in progress with the IAB regarding the appointment of a Project Manager at the earliest opportunity. Scottish Government acknowledged that there was a tight timescale involved, but it was anticipated that this could be achieved.

Following the issue of a paper by Written Procedure at the end of June 2009 regarding changes to ERDF Priority 3, a more comprehensive report of progress on JESSICA would be made at the October PMC meeting.

The Commission indicated that they were very pleased with the work to date, and looked forward to the initiation of the JESSICA Fund in 2010.

The Committee agreed the recommendations of the Consultant's report and the Scottish Government paper

In the absence of Suzanne Henderson, Scottish Government, to address paper 8, it was agreed that the Exceptional Project Procedure items be discussed before lunch.

7. Exceptional Project Procedure – Consideration of ESF Strategic Projects

The IAB summarised the ESF Strategic Projects paper previously circulated to members. Members were referred specifically to item 4.1.3 of this paper where further clarification had been requested from the PMC by the Standing Advisory Group at their request.

The Convener thanked the IAB for their presentation, and also thanked the respective Advisory Group members for their input. The Convener invited discussion from Committee.

Members enquired regarding the additional support the Priority 2 project would offer those apprentices facing redundancy, the numbers this was likely to affect and whether this fully addressed the potential needs. Scottish Government advised that a 'golden handshake' incentive payment would be offered to employers to encourage them to take on redundant apprentices to enable them to complete their training programmes. Scottish Government advised that 500 'golden handshakes' had been estimated to be required over a 1 year project lifespan. It was unlikely that any type of subsidy would be available for employers who already have apprentices in place as an incentive to retain them.

The Convener added that it was anticipated that there would be another two exceptional, time critical ESF projects forthcoming to help disadvantaged groups and adults get apprentice training places as well as addressing those being made redundant and the potential for additional training to support them. Committee were advised that these would be projects

considered by the Standing Advisory Group in the summer, with a paper being issued to PMC members by written procedure. Committee members were advised that new initiatives would only be considered as fast track projects in exceptional circumstances and this procedure would not be used as a short-circuit to the robust process in place already.

The Commission enquired regarding the outcomes of the recent Apprenticeship Summit attended by Scottish Government on 28 April 2009. Committee noted that the main purpose of the Summit surrounded the broadening of the target areas of those involved i.e. those trainees already serving notice, and those who had already received redundancy notification. This applied across the whole LUPS area, however the geographical impact of the current economic climate was more noticeable within larger industries, than with smaller businesses and specifically across all businesses in the construction sector.

Whilst Committee agreed the recommendations, it was noted that these needed to be forwarded to Ministers for the final decision.

The Committee agreed the recommendations.

8. Exceptional Project Procedure – Consideration of ERDF Strategic Projects

The IAB summarised the ERDF Strategic Projects paper previously circulated to members. Committee members noted that neither of the two project applications had been recommended for funding by the Advisory Group.

The Convener thanked the IAB for their presentation, and also thanked the respective Advisory Group members for their input. The Convener invited discussion from Committee.

Although the Committee agreed with the proposed recommendations, concern was raised regarding the apparent poor quality of the applications and the apparent lack of awareness of similar public sector funds highlighted within the applications by the Advisory Group.

Committee also emphasised the need for consistency of approach throughout the application process. This related to ESF applicants being permitted to make presentations to the Advisory Group, where ERDF applicants were not.

The IAB advised that they had provided support to both applications, and had advised them of the significant number of compliance issues which would require to be addressed in particular State Aids and procurement. These concerns had been raised with project sponsors both by letter and in individual meetings, also attended by Scottish Government, where support and advice on progressing the applications had been given.

The Convener acknowledged that detailed feedback would require to be made to project sponsors following the PMC outcomes, and meetings would be held in the forthcoming week to this end. Project sponsors would be approached and given the opportunity to amend their application, taking into account the recommendations of the IAB and Advisory Group.

Whilst Committee agreed the recommendations, it was noted that the outcomes would be forwarded to Ministers for the final decision.

The Committee approved the recommendations.

9. Development of a Scottish Investment Bank and the Potential Impact on the Scottish Co-Investment and Venture Funds

The Convener advised that, in the absence of Suzanne Henderson, Nigel Lindsay would address this paper.

Committee were invited to note item 3.4. within the paper. Ministerial announcements had already been made in relation to support for a Scottish Investment Bank.

Scottish Government indicated the potential for ERDF funds to be used as a catalyst for additional funding means under a JEREMIE initiative (along similar lines to JESSICA) for Scotland. However, members were asked to note the 'next steps' indicated at item 4, as these areas required addressing prior to progress being made. Committee noted that a further update report would be submitted to the October PMC; however, no progress would be made without the due consideration of the PMC.

Members requested clarification of item 4.1.4. Scottish Government advised that this had not yet been agreed, however local authorities could be considered as providers of loan finance.

Concern was raised at the main target of this funding mechanism being metropolitan areas, with little impact likely to be upon rural areas. Scottish Government anticipated a broadening of the scope for ERDF Priority 2, which would incorporate rural areas. However, Scottish Government highlighted that, for rural areas to benefit from the SIB, initiatives required to be forthcoming from these areas. The success of the West of Scotland Loan Fund, which covered a number of rural areas, was noted as a comparison.

The representative from Scottish Enterprise advised that, following re-organisation, business focus was mainly on large scale/national impact projects, and therefore welcomed the opportunity of a JEREMIE-type fund which might provide funds across a broader area.

Members sought reassurance that this would not have a detrimental impact upon SME investment, and that 5 year funding commitments would be honoured. Scottish Government advised that both Ministers and the Commission were keen to ensure that the flow of funding to businesses was not affected and therefore would not have a detrimental effect on activity.

The Commission noted their agreement with the paper discussed, and indicated support for financial support of the economy. However, they were keen to ensure that prudent financial management of such a fund is undertaken in order to ensure that there is no funding clawback.

Referring to item 4.1.2, the Commission highlighted the importance of completing market gap analysis and business plans. This would be discussed within the Options paper which would be discussed later in the meeting.

The Committee noted the progress made.

10. The Post Approval Compliance System – Compliance Up-front

The Convener advised that this paper would outline the new Scottish Government audit requirements relating to the delivery of the two ERDF and two ESF Programmes in Scotland. Project sponsors would require to meet these conditions, from which Scottish Government would submit formal reports to the Commission based on the information detailed within applications.

Mark Ashton of the Verification and Compliance Team, Scottish Government, summarised the four stage checking process which would be followed in compliance with Commission audit

regulations. Members noted that the checks at Stage 2 would include all aspects of a project's implementation.

The IAB advised that application seminars had been arranged for project sponsors in order to brief them on the new compliance system. System audits would also be carried out to ensure that claims were being completed correctly.

The Convener commented that this financial and process audit system had been developed based on previous experience of Commission audits and to meet the regulatory requirements of the Commission. The Committee noted that information was checked at both desk based level, and also via on-the-spot visits. The need to emphasise the importance of compliance with project sponsors in order to minimise the number of errors in the claims process, which had the knock-on effect of delaying payments, was also noted. It was anticipated that the combination of old and new processes would ensure this new audit system was fit for purpose.

The Commission drew attention to the following areas:

Chapter 2.2.1 - Desk Based Checks. Where issues are found in checks these should be used to provide guidance for other organisations likely to be making claims

Chapter 2.2.2 - On-The-Spot Visits Under Article 60b. 20% checks should not be targeted solely at one area i.e. payroll, rather taken from a varied cross section

Chapter 2.2.3 - Analysis of Findings from the Compliance Checks at Stages 1 and 2 - it is important to determine and agree the role of each partner involved in the different layers of checks.

The Convener advised that the IAB would be running training workshops to ensure that all staff involved were clear on their roles and remit.

The Commission reported that they had received copy of the proposed Compliance Assessment system in early May. Some issues surrounding clarification required to be resolved prior to Commission sign-off, and they urged Scottish Government to action these as a matter of urgency in order that funds could be drawn down.

The Committee noted the new compliance system for the 2007-2013 Programmes.

11. Options on Future European Structural Fund Programme Priorities and Amendments to Operational Programmes

The Convener advised that Scottish Government had been mandated at the March PMC to prepare this options paper, based on the Committee's discussion at that meeting and a stock-take paper prepared by the consultants, Fraser Associates.

Referring to the annexes, members raised concern that the focus appeared to be more directed at metropolitan rather than rural areas. The Convener advised that there was no scope to open ESF Priority 1 or ERDF Priority 3 up to non-urban areas. However, if ESF Priority 3 were to be merged into Priority 2 this would retain the eligibility for the whole of the LUPS area.

Members also enquired whether there was any scope for adjusting the area coverage within Annex B, specifically at points B14 and B16 on the geographical coverage of ERDF Priority 4. The Convener advised that the area covered was reviewed annually within the existing Programme requirements.

Members noted the importance of further alignment and synergy at the front end using European funding alongside the Big Lottery Fund and the SRDP, and working more closely with the Scottish Funding Council and Skills Development Scotland.

There was general agreement from members that it was important to retain the ESF programme's focus on those needing substantial help to enter and progress in the labour market. They were often the hardest hit by the current economic downturn, and would find it increasingly difficult to get into employment.

The following summarises the Committee's decision on each item (previously circulated to members by email on 2 June 2009);

11.1 European Social Fund

11.1.1 Close Priority 3 and move the remaining funds into Priority 1, but retain the eligibility of Priority 3 activities within Priority 1 and 2, as appropriate.

The Committee agreed that ESF P3 should remain open for the 3rd application round. After this round, further discussion should take place with regard to the future options for ESF P3.

11.1.2 Target the remaining Priority 1 allocation by:

- commissioning specific projects and working more closely with potential match funders such as the Big Lottery Fund and the Scottish Funding Council;

The Committee agreed that this action should be taken forward and, if possible, project proposals could come forward to the October PMC meeting.

- enhancing the current Community Planning Partnership (CPP) Plans at the local area, where the CPPs can prove results and partnership in the use of ESF funding received to date.

The Committee agreed that they would require to be presented with actual evidence that the CPP approach is working effectively before any decision can be made to extend the CPPs' allocation. This evidence would be considered at the October PMC meeting.

- limiting the funding available for individual competitive bids;

The Committee agreed that this was the corollary of the previous points. At present, funding should not be limited for individual competitive bids.

- ensuring that, across all these options, there is a strong steer to use the expertise and delivery mechanisms of the Third Sector and the Further Education Sector.

The Committee agreed this proposal.

The Committee also confirmed that the use of funds in the LUPS ESF Programme should continue to be balanced between alleviating the effects of the recession, by assisting those recently unemployed or at threat from unemployment, and continuing to assist those in the hardest-to-reach groups at some distance from the labour market.

- 11.1.3 Work with partners to commission more Priority 2 partnership projects addressing the current high levels of redundancies and/or sustaining Modern Apprenticeship training.

The Committee agreed that this work should be taken forward.

- 11.1.4 For areas that are eligible under ESF Priority 1 (and ERDF Priority 3), maintain that eligible status for the remainder of the Programme period, even if an area drops out of the most disadvantaged target group.

The Committee agreed to this proposal.

11.2 European Regional Development Fund

- 11.2.1 For Priority 1, give a steer to the Advisory Group on the type of projects to be supported, focusing on research and innovation projects that address long term challenges such as climate change adjustment, clean transport and construction, and energy security.

The Committee agreed that the Advisory Group should be given this steer. However, in relation to “energy security” projects, it was agreed that this was not appropriate and that the focus should be changed to “renewable energy” projects.

- 11.2.2 For Priority 2, make greater use of commissioning projects that will allow a wider diversity of activity and outcomes.

The Committee agreed commissioning should be used to encourage projects which would complement the range of investment activity already supported e.g. Business support/Investor readiness support for investee companies.

- 11.2.3 For Priority 3, continue discussions with the Commission on: widening the eligibility criteria to offer support to larger capital projects; developing a JESSICA funding model; and implementing some technical changes relating to the treatment of match funding in the Operational Programme and financial tables.

The Committee agreed this proposal.

- 11.2.4 For Priority 4, take forward the proposed changes to the Operational Programme (as discussed separately by the PMC) and explore whether an extension to the geographic coverage of the Priority would be supported by the statistical evidence.

The Committee agreed that the proposed changes to Priority 4 should be taken forward. Members also noted that geographical coverage of ERDF Priorities 3 and 4 (and ESF Priority 1) is reviewed annually against agreed statistical criteria. This year’s review is due to take place shortly.

- 11.2.5 Note that following the PMC discussion, Scottish Government officials will take matters forward with Ministers and the Commission, as appropriate.

The Committee noted that matters will be taken forward with Ministers and the Commission, as appropriate.

12. Any Other Business

12.1 Dundee CPP

The Convener advised that a presentation on the above would be made at the October meeting of the PMC. In addition, it was noted that members had indicated an interest in visiting some of the projects. The representative from the Borders suggested that a future meeting be held there, with a visit to some of the local projects included in the itinerary.

12.2 PMC Meetings – Overnight Stays

On advising that the October meeting would be held in Edinburgh, the IAB enquired whether members considered the pre-PMC dinner and overnight stays held for previous meetings to be of benefit. The Convener suggested that all members be contacted accordingly in order to determine their views on the matter.

12.3 Publication of PMC Papers

The Convener suggested that a short note summarising the agenda content and recommendations of Committee meetings be circulated to members for comment, and thereafter published on the relevant websites. The detailed full minute of meetings would be circulated in due course for agreement by Committee at the October meeting.

The Committee agreed to this recommendation.

12.4 Evaluation and Communication Plans

Scottish Government advised that both the Evaluation and the Communications Plan would be updated at the end of June. The date of the major information event in the Communications Plan would be advised to the Commission at the earliest opportunity.

The Committee agreed to the updates

13. Date of Next Meeting

The next meeting of the Committee will be held on Wednesday 18 October 2009, in Edinburgh.

The Convener thanked all for attending and thereafter closed the meeting.