



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

ALLOCATION OF REMAINING FUNDS UNDER EACH PRIORITY OF THE ERDF PROGRAMMES

1. Purpose

- 1.1 To set out proposals for the targeted use of the balance of the ERDF monies remaining in the LUPS ERDF Programme

2. Background

- 2.1 At the meeting on 17 March in Dundee, Committee invited the MA to present to this meeting proposals on how we could best utilise the balance of the funding available in the LUPS ESF and ERDF Programmes. Alongside the presentations on the economy and the annual reports this paper aims to provide the PMC with the information that they need to discuss what actions are required to ensure that the ERDF Programme continues to support recovery. The proposals for ESF are the subject of a separate paper.
- 2.2 The Fraser report considered at Committee in March 2009 concluded that the ERDF Programme as drafted would already deliver projects that would contribute well to economic recovery. The report also made suggestions on how eligibility could be usefully extended and we agreed a number of changes to the Operational Programme (OP) last year in time for the delivery of the 3rd application round. The MA do not believe that further changes to eligibility criteria of the Programme are necessary at this stage and that possible revisions to the financial tables (including virement) should be deferred until later in the year.
- 2.3 Although we do not see a need to make any further changes to the OP at this time we propose that the Committee agree that we take a more targeted approach to the next application round. This will allow us to achieve the agreed Programme indicators by funding projects that are primarily focussed on economic development outcomes but that are also aligned with the priorities and aspirations identified in Europe 2020 Strategy (Smart, Sustainable and Inclusive Growth), Scottish Government Economic Recovery Plan, emerging policy priorities, and in particular the achievement of the Low Carbon Strategy and carbon reduction targets.
- 2.4 The more targeted approach outlined in this paper for Priorities 1 and 2 will also ensure that the resources of the IAB, MA and project sponsors are not expended on running open bidding rounds in those priorities where it is clear that the financial resources available would not allow us to meet the anticipated level of demand. This potential saving in staff time will, if realised, allow us to devote more effort to the compliance work needed to ensure achievement of the N+2 targets and as a result will reduce the risk of a decommitment of funds in future years.

3 Priority 1 - Research and Innovation

3.1 The performance of the Priority is summarised in Table 1

Table 1: Analysis of Priority 1 Indicators

Outputs

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Number of Enterprises Supported	2,500	6,777	89%	271%	1,707	15%	68%
Number of research networks/ collaborations supported	600	1,033	89%	172%	283	15%	47%
Number of renewable energy projects supported	150	298	89%	199%	44	15%	29%

Results and Impacts

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Number of new products and services developed by supported enterprises	1,800	1,578	89%	88%	49	15%	3%
Increase in turnover by supported enterprises (£m)	150	271	89%	181%	9	15%	6%
Number of new products and services developed by supported research networks	900	551	89%	61%	30	15%	3%
Number of gross jobs created	6,100	4,535	89%	74%	192	15%	3%
Number of net new jobs created	*	*	89%	*	*	15%	*
Increase in research/ innovation expenditure by supported enterprises	*	*	89%	*	*	15%	*

*Not possible to establish figures from individual applications. Programme-wide figures to be confirmed at Evaluation stage

There is **£9,118,241** of ERDF available in Priority 1.

- 3.2** Earlier rounds have shown a bias in allocation towards projects aimed at Life Sciences. This reflects Scotland's relative competitive advantage and the strong existing Life Science research base located primarily but not exclusively around the 4 Medical Schools of Edinburgh Glasgow, Aberdeen and Dundee. The success rate of the applications also reflects the high priority accorded to this sector by both Scottish Government and Scottish Enterprise. Although that priority is maintained we believe that we now need to consider a re-focus of Priority 1 activity to support the low carbon agenda. The Fraser report also identified this trend and suggested that future funding should be directed at meeting long term challenges such as Climate Change. This focus was reflected in the advice offered to members of the Standing Advisory Group when considering Round 3 applications but it has not so far been used to pre-determine the type of applications being submitted.
- 3.3** Although a reasonable number of approved projects are aligned to low carbon outcomes the MA recommend that the focus of investing the balance of the funds remaining in Priority 1 should be targeted on ensuring that Scotland's business base is better placed to take advantage of the opportunities that will come from the emphasis being given to the achievement of the carbon reduction targets across the public sector. To help achieve this shift the MA have been in discussion with the Energy Division of Scottish Government and SEPA with the aim of developing a specification for a targeted call for applications. An outline proposal is attached at **Annex 1**. In order to ensure policy alignment and maximise synergies it is also the intention to work closely with SEPA and the Scottish Green Energy Centre (SEGEC).
- 3.4** We propose that the targeted round would be run over July to September with the aim of approving projects at the PMC in October 2010. The Standing Advisory Group will continue to assess individual applications to ensure eligibility with the Operational Programme. The focus of the round will be to support projects that aim:
- 3.4.1 to create new industry-academic-government low carbon demonstration hubs, focussed on innovative low carbon technologies in the Energy and Environmental and Clean Technologies (ECT) sectors where Scotland has advantage;
 - 3.4.2 to provide financial support to SMEs seeking funding for commercial scale demonstration of innovative low carbon technologies in the energy and ECT sectors; and,
 - 3.4.3 to foster collaborative low carbon demonstration projects between SMEs, the higher education sector and large utility companies

3.5 Conclusion

The Committee is asked to endorse this approach, to allow a focussed call for applications under ERDF Priority 1 based on the specification agreed with Energy Division to run over summer 2010.

4 Priority 2 – Enterprise Growth

4.1 The performance of the Priority is summarised in Table 2

Table 2: Analysis of Priority 2 Indicators

Outputs

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Number of enterprises receiving financial support	250	6,535	89%	2,614%	473	21%	189%
Number of individuals/ enterprises receiving advice/ consultancy	11,600	37,906	89%	327%	5,808	21%	50%
Number of enterprises receiving support for e-commerce	5,700	6,124	89%	107%	783	21%	14%
Number of enterprises receiving support for energy-saving and resource efficiency	5,700	4,094	89%	72%	237	21%	4%

Results and Impacts

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Increase in turnover in supported enterprises (£m)	140	106.75	89%	76%	6.65	21%	5%
Number of new business starts	5,500	9,442	89%	172%	1,476	21%	27%
Number of e-commerce strategies developed	4,100	3,198	89%	78%	302	21%	7%
Number of enterprises implementing environmental audits and energy-saving/ resource efficiency systems	4,100	2,232	65%	54%	32	21%	1%
Number of gross jobs created	13,600	19,075	89%	140%	1,898	21%	14%
Number of net new jobs created	*	*	89%	*	*	21%	*
Gross value added in supported enterprises	*	*	89%	*	*	21%	*

* Not possible to establish figures from individual applications. Programme-wide figures to be confirmed at Evaluation stage

There is **£12,060,236** of ERDF available in Priority 2.

- 4.2** The Fraser report identified that the allocation of funding in this Priority had been heavily dominated by projects aimed at improving SME access to finance. Although the MA accepted this observation - it is very clearly demonstrated by the projected results in Table 2 - the MA believes that the success of Scottish Enterprise's equity products and the issues in the Scottish economy around bank financing made this an appropriate level of commitment. The PMC endorsed this view and at its last meeting approved a further ERDF allocation to the SIB Loan Fund. However, the MA recognise the need to fund more focussed business support activity, particularly any activity that is aimed at supporting SMEs working through and out of the recession.
- 4.3** A small number of applications have already been made by various local authorities under Priority 2: Enterprise Growth. Some of the bids appeared to replicate the operation of the Business Gateway. As the Standing Advisory Group were not convinced on the strategic fit of the proposals that had been submitted or the additionality of the activity they recommended that the projects should not be funded; a view endorsed by the MA. We accept that we need to take a more strategic approach to funding business support so that we can exclude wasteful duplication of effort. The work of the Business Gateway Scotland Board (BGSB) offered us an opportunity to achieve a consistent approach across the LUPS Programme area.
- 4.4** The MA, IAB and Scottish Government policy leads have worked with Scottish Local Authority Economic Development Group (SLAED) to develop a framework that seeks to identify activity that would complement existing Business Gateway provision. When it is finalised the framework will be proposed to the MA jointly by SLAED and COSLA. A draft of the framework and supporting paper is provided at **Annex 2**. By providing a menu of activity we are aiming to give clarity to sponsors, advisory groups and policy leads on the range of activity that we are likely to support through Priority 2. However, the menu does not imply that we can or should support all of the listed activity in every area. We will require clear evidence of demand for each element of activity based on the needs of the local economy.
- 4.5** One option to be considered is to ask the Business Gateway Scotland Board (BGSB) to endorse the justification for the activity, evidence of demand, structure and management elements of each of the Local Authority bids. The Scottish Government policy lead, who also sits on the Board, can simultaneously address any issues around the strategic fit of individual bids. Asking the BGSB and the SG policy lead to endorse the applications submitted by local authorities at the start of the process will allow us to identify duplication of service provision at an early stage, share best practice and identify opportunities to share service provision across local authority boundaries. This scrutiny would supplement the information that will be used by the Standing Advisory Group to assess the value for money, partnership, horizontal themes and past performance elements of the bids before making a recommendation to the PMC. The MA also suggest that the call for proposals under this targeted round should not be restricted to local authority partners. It may be demonstrated through a more open call that some elements of the activity identified in the menu could be more efficiently delivered across a number of areas or across the entire LUPS programme area by organisations other than local authorities. If proposals from other partners are received the Standing Advisory Group may need to make an assessment on which of the proposals represent the best value.

4.6 We believe that the urgency to provide this additional business support activity to SMEs in the current economic climate requires that we commission applications before the next round is due to start in August. We will continue to work with SLAED and BGSB on the most efficient assessment and delivery arrangements for this targeted round.

4.7 If the PMC endorse this approach then clearly we will not know the value of the additional business support activity and therefore the level of grant that will be available following this exercise. However, we are working on the assumption that no open bidding round for Priority 2 will follow later in the year.

4.8 Conclusion

The PMC is asked to note the contents of the draft framework at Annex 2, to endorse the suggestion that we invite application under ERDF Priority 2 for additional business support activity from LAs and note that it appears unlikely that an open bidding round will be affordable later in the year.

5 Priority 3 – Urban Regeneration

5.1 The performance of the Priority is summarised in Table 3.

Table 3: Analysis of Priority 3 Indicators

Outputs

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Number of job brokerage initiatives supported	30	84	66%	280%	20	1%	67%
Number of ICT and e-learning facilities supported	40	88	66%	220%	27	1%	67%
Number of childcare and other community facilities supported	30	79	66%	263%	3	1%	10%
Number of transport hub projects supported	25	6	66%	24%	0	1%	0%
Area of business space created or modified (m ²)	7,500	28,951	66%	386%	0	1%	0%
Number of renewable energy and resource/energy-efficiency projects supported	90	18	66%	20%	1	1%	1%

Results and Impacts

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Increase in the number of individuals gaining employment through job brokerage schemes	650	12,562	66%	1,933%	1,432	1%	220%
Increase in the number of individuals gaining employment through supported e-learning/ ICT facilities	650	2,320	66%	357%	23	1%	4%
Increase in the number of individuals gaining employment through supported childcare/ community facilities	500	917	66%	183%	0	1%	0%
Number of enterprises supported	1,100	2,046	66%	186%	59	1%	5%
Number of social enterprises supported	350	232	66%	66%	15	1%	4%
Number of gross jobs created	4,500	1,358	66%	30%	215	1%	5%
Time saved per journey (journey time x freight/ passenger volume)	*	*	66%	*	*	1%	*
Increase in share of energy from renewable resources in supported areas	*	*	66%	*	*	1%	*
Number of net new jobs created	*	*	668%	*	*	1%	*

* Not possible to establish figures from individual applications. Programme-wide figures to be confirmed at Evaluation stage

There is **£31,215,574** of ERDF available in Priority 3.

- 5.2** We are continuing to develop a JESSICA fund and although the ERDF elements of this process have been in place for some time we have not so far been able to make a formal announcement of the signing of a funding agreement. The figures shown above as available take account of the £25 million that would be used to capitalise a JESSICA fund and also the £10 million grant allocation to fund activity complementary to JESSICA that was previously agreed by the PMC. **The available grant figure does not take account of the applications made in respect of combined heat and power in Cardenden and Maryhill that will be considered separately at this meeting by the PMC.**

- 5.3** The PMC agreed a number of proposals to widen the eligibility scope of Priority 3 and those recommendations were approved by the Commission in time to be applied to projects submitted in Round 3. Some of the projects submitted in Round 3 appeared to be more suitable for JESSICA investment and the Priority 3 Advisory Group recommended that those projects should be deferred until we had clarity on the operation and the final value of a JESSICA fund.
- 5.4** It is clear that the level of demand in Priority 3 has increased because of the wider eligibility and the IAB and MA have been dealing with a number of enquiries from potential project sponsors. The pipeline of projects appears healthy and includes a number of projects that would support urban regeneration and the low carbon agenda such as new approaches to retrofit energy efficiency measures in social housing and clean transport systems. We anticipate a high level of demand in the next round and therefore recommend that we allow Round 3 to progress to a competitive bidding round in the normal way.
- 5.5** If the PMC agree that we should ask ESEP to commission a 4th application round we suggest that we should also give some thought to the activity or themes that members want to see coming through that round. The MA believe that focussing the call on projects that link the inclusive economic growth aspirations of the Operational Programme with sustainable growth targets that are also likely to contribute to the low carbon agenda would give a useful direction to the work of the IAB, MA and Standing Advisory Group.

5.6 Conclusion

The PMC is asked to agree the recommendation to move forward with a competitive bidding round for ERDF Priority 3 and endorse the suggestion that we place an emphasis on projects that demonstrate a link between urban regeneration and carbon reduction/renewable energy.

6 Priority 4 – Rural Development

6.1 The performance of the Priority is summarised in Table 4.

Table 4: Analysis of Priority 4 Indicators

Outputs

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Number of enterprises supported	1,400	7,222	45%	516%	61	4%	4%
Number of e-learning/ childcare and other community facilities supported	40	52	45%	130%	0	4%	0%
Area of business space created or modified (m ²)	2,400	39,976	45%	1,666%	0	4%	0%
Number of educational access projects supported	20	6	45%	30%	1	4%	5%
Number of local transport projects supported	20	6	45%	30%	0	4%	0%

Results and Impacts

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Number of new marketing initiatives	910	298	45%	33%	19	4%	2%
Number of enterprises introducing new supply and production processes	910	589	45%	65%	39	4%	4%
Number of enterprises benefiting from supported facilities	900	1,356	45%	151%	23	4%	3%
Occupancy rates of business space by the end of the Programme	90%	90%	45%	100%	0%	4%	0%
Number of gross jobs created	1,400	1,518	45%	10%	91.50	4%	7%
Number of enterprises accessing higher and further education research/ training resources	*	*	45%	*	*	4%	*
Time saved per journey (journey time x freight/ passenger volume)	*	*	45%	*	*	4%	*

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Increase in gross value added per employee in supported enterprises	*	*	45%	*	*	4%	*
Number of net new jobs created	*	*	45%	*	*	4%	*
Increase in turnover in supported enterprises	*	*	45%	*	*	4%	*
Increase in gross value added in supported enterprises	*	*	45%	*	*	4%	*

* Not possible to establish figures from individual applications. Programme-wide figures to be confirmed at Evaluation stage

There is **£25,312,046** of ERDF available in Priority 4.

6.2 It is recognised that the level of activity up to and including Round 3 has been disappointing. With a low number of projects approved and a weak pipeline of projects it is clear that project sponsors find the eligibility criteria in the Operational Programme restrictive to the extent that it does not match the priorities of potential sponsors. This has clearly been a barrier to the development of eligible projects and the PMC recommended widening of the eligibility of Priority 4. Those changes were agreed by the Commission in time to be applied to projects in the last round.

6.3 The PMC has been kept up to date with the actions taken by the IAB and the Global Grants Body (GGB) to stimulate activity including a workshop in Stirling on 14 December 2009 and a workshop in Dumfries on 25 February 2010. The Stirling workshop was aimed at scoping out potential ideas for eligible activity under Priority 4. This exercise attended by the local authorities, colleges and national agencies of Scottish Enterprise and VisitScotland identified three key areas meriting further exploration. They were;

- Rural town Centres (as new drivers for SMEs and regeneration)
- Growth Sector Priorities and Supply Claim Linkages
- Innovation in Rural Knowledge Exchange and Transfer

The event in Dumfries focussed on brainstorming potential project ideas. Following these two workshops three separate focus groups have met in late April/early May to identify and develop project ideas arising from the three themes of rural town centres, SME sector priorities and supply chain development and rural knowledge exchange and transfer. Also, the intention is to develop strategic collaborations between and within sector constituencies. Already a number of potential project ideas are emerging.

6.4 Clearly it is reasonable to allow time for potential project sponsors to reflect on the ideas flowing from the various work streams that followed on from the workshops and to work up ideas into eligible projects.

- 6.5** One of the options identified at the workshops was to allow Priority 1 and Priority 2 activity to be funded through Priority 4. Partners believe that this would allow the development of applications that address the need to stimulate research and innovation and provide tailored business support interventions in rural areas. It does appear reasonable to assume that Priority 1 proposals from sponsors in rural areas of Scotland will find it difficult to compete in an open bidding situation with applications made by leading research centres. We have no clear evidence to support that claim but that may be because of an element of self selection by potential sponsors not to enter an open competition. Some partners also suggest that the needs of rural Scotland are squeezed out in Priority 2 by national projects that seek to target potential high growth SMEs. The MA believes that the proposal for ERDF Priority 2 outlined earlier in this paper will partly address that perception for enterprise growth.
- 6.6** The MA do not believe that transferring activity between priorities would be possible. However, the same benefits could be delivered by moving some of the funds currently allocated to Priority 4 to Priority 1 and/or Priority 2. This would have to be done on the understanding that the transferred funds would, at least for a reasonable period, be allocated only to projects in those areas currently eligible under Priority 4.
- 6.7** This is only one option and the MA's recommendation is that we wait to see what level of demand develops over the Summer and if the absorption rate does not improve then the MA will consult with partners and aim to bring forward an options paper for further discussion at the October 2010 meeting.

6.8 Conclusion

The PMC is asked to note the continuing efforts to improve project development in Priority 4 and agree to accept an options paper for discussion at the next PMC if the absorption rate fails to improve significantly.

7 Recommendations

- 7.1** The Committee is invited to:
- 7.1.1 agree to allow a focussed call for applications in Priority 1 based on the specification agreed with Energy Division at Annex 1 and that the call should be run over the Summer of 2010;
 - 7.1.2 with regard to Priority 2, note the contents of the draft framework at Annex 2 and to agree that we invite applications for additional business support activity from local authorities in line with that framework and to note that it appears unlikely that an open bidding round will be affordable later in the year;
 - 7.1.3 agree the recommendation under ERDF Priority 3 to move forward with a competitive bidding round and endorse the suggestion that we place an emphasise on those projects that demonstrate a link between urban regeneration and carbon reduction; and,

- 7.1.4 note the continuing efforts to improve project development in Priority 4 and agree to accept an options paper from the MA for discussion at the next PMC if the absorption rate fails to improve significantly.

David Souter
The Scottish Government
Tel: 0300 244 1110
Email: david.souter@scotland.gsi.gov.uk

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