

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

**NOTE OF MEETING HELD ON
WEDNESDAY 17 MARCH 2010,
AT DISCOVERY POINT, DUNDEE**

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
Koen Delanghe	European Commission, DG Regio
Professor Campbell Gemmell	SEPA
David Grahame	LINC Scotland
Councillor Alasdair Hutton	Scottish Borders Council
Graeme Hyslop	Langside College
Dame Barbara Kelly	Southern Uplands Partnership
Donna Mackinnon	SCVO
Dr David George McBeth	University of Strathclyde
Grahame Smith	Scottish Trades Union Council
Dimtcho Tourdanov	European Commission, DG Employment
Angela Wiseman	Scottish National Rural Network

Apologies:

Councillor Kate Dean	Aberdeen City Council
Dharmendra Khanani	Big Lottery Fund
Councillor David O'Neill	North Ayrshire Council

In Attendance:

Mabel Hildebrand	Scottish Government
Nigel Lindsay	Scottish Government
Michael O'Neil	Scottish Government
Brenda Russell	Scottish Government
David Souter	Scottish Government
Paul Teasdale	Scottish Government
Graeme Watson	Scottish Government
George Kintzele	European Commission, DG Employment
Neil Mitchison	European Commission (Scotland representative)
Marc Vermyle	European Commission, DG Employment
Gordon McLaren	ESEP Ltd
Susan Napier	ESEP Ltd (Minutes)
Susan Tamburrini	ESEP Ltd
Nigel Thomas	ESEP Ltd
Karen Fraser	Scotland Europa (Item 6 only)
Donald MacInnes	Scotland Europa (Item 6 only)
Wilson Malone	Scottish Government (Item 9 only)
Brian McVey	Scottish Enterprise (Item 9 only)
Ian McCall	Scottish Government (Item 9 only)

1. Introduction

The Convener welcomed all members to the meeting, and made a special welcome to George Kintzele, Head of Unit, DG Employment from the European Commission. Members were invited to make round-table introductions.

The Committee noted that a letter had been tabled from Councillor David O'Neill. This would be included at the relevant discussion points during the meeting.

Prior to further commencement of business the representative from STUC requested clarification on the Committee's position regarding conflict of interest/declaration of interest. The Convener stated that, where possible, he was keen for all members of the Committee to contribute to the strategic discussion on the current and future use of Structural Funds. However, it was inevitable that, on occasion, individual items would arise of a sensitive nature for particular members, who might prefer to leave the room when such items were discussed. The Convener stated that he was aware of the risk of conflicts of interest, but was fully satisfied that this Committee's business had been properly conducted to date. This reflected the professional nature of the Committee and its members. The representative of the STUC accepted this explanation.

2. Apologies

Apologies were received from Councillor Kate Dean, Dharmendra Kanani and Councillor David O'Neill.

3. Minutes of the Previous Meeting on 28 October 2009

Referring to Councillor O'Neill's letter addressing the item on Pivot, the Convener advised that the Cabinet Secretary had made the decision not to go ahead with the proposal. Committee members had been advised to this effect by Written Procedure following the PMC on 28 October 2009.

The Convener invited the IAB to provide an update on those items which were not covered by the agenda.

3.1 CPPs

A Written Procedure was issued to members on 4 December 2009 presenting recommendations from the CPP Advisory Group to provide an additional allocation of £14.5m ESF and £2.4m ERDF for a further period of 12 months for all 13 CPPs.

Those present noted the presentation prior to dinner on 16 March 2010 by Michelle Gautier on the progress with Dundee CPP. A copy of the presentation would be posted on the ESEP website. This project was seen as a good example of partnership in the CPP context.

3.2 N+2

The financial spend target for both ERDF and ESF had been achieved for 2009. A further update would be provided by Nigel Thomas during his presentation at agenda item 5.

3.3 Claims Processing

It was noted that workshops would be arranged in late March/early April to better explain the Management and Control Systems and to assist project sponsors in completing claims.

3.4 Banff and Buchan College

Recent clarification from the European Commission had confirmed that, within the regulations, contributions to Further Education infrastructure cannot be provided under ERDF Priority 4 to projects where the nature of support will result in training and skills facilities provision. Accordingly, the Managing Authority had no option but to reject the Banff and Buchan capital application on this basis.

(Councillor Berry and Neil Mitchison joined the meeting).

3.5 Rural Development Scoping Workshop, 14 December 2009

A report on the outcomes of the workshop held in Stirling on 14 December 2009 would be provided at agenda item 10.

3.6 Pivot Capital Partners Venture Fund

All three actions were undertaken and a Written Procedure paper issued to Committee in late January 2010 advising that Scottish Government Ministers would not be approving the application from Glasgow City Council. Although Ministers had recognised the potential of the new risk capital fund, they had not been persuaded that this was the best option for the remaining ERDF grant.

The Written Procedure paper also advised members that a Priority 2 application aimed at improving the availability and access to debt finance for SMEs would be brought forward to the PMC under the accelerated procedure by the Business Competitiveness Division of Scottish Government. See Agenda Item 9 – SIB Loan Funds.

3.7 Exceptional Projects Procedure – ESF

Recommendations on supporting the SCVO Sustaining Future Jobs strategic application and the Edinburgh Business Development strategic application were deferred at the last PMC in October and referred back to the ESF Priority 2 Standing Advisory Group for further consideration by Written Procedure on 16 November 2009. A Written Procedure paper was subsequently issued to the PMC on 28 November 2009 with the recommendation to reject the SCVO application and support the Edinburgh Business Development project subject to certain specific conditions. SCVO appealed the decision and a revised recommendation is included at agenda item 7.

3.8 Other Written Procedures – East of Scotland Loan Fund

This development had been trailed with Committee and they agreed in principle to support a comparable local authority-led loan fund in the East of Scotland modelled on the successful West of Scotland Loan Fund. Written Procedure was issued on 15 February 2010 seeking £2m ERDF to create a total loan fund of £5m. This was recommended for approval by the Committee.

In commenting on this update:

With reference to the comment by Councillor O'Neill on the Pivot Capital Ventures Fund, those present agreed that it would not have been possible to advise the sponsors any earlier.

Members welcomed the opportunity the claims workshops would offer, and pointed out that some issues may arise regarding monitoring and audit processes. The IAB agreed to factor this into the workshop itinerary.

(Angela Wiseman joined the meeting)

The Convener also welcomed the workshops, anticipating that they could resolve a number of common issues, and thereafter speed up the claims process overall.

4. Financial and Physical Progress Report on the Implementation of the Programmes Including N+2

The IAB provided a comprehensive update on financial spend and the achievement against physical targets in implementing the Programmes. The presentation outlined the funds available moving into the 3rd round.

Committee noted that an ERDF project valued at £1.8m had recently withdrawn, with the money reinstated to the ERDF funds. £16m funding was now available in Priority 1, £39m funding in Priority 2, just under £40m in Priority 3 and £34m in Priority 4.

(Michael O'Neil joined the meeting)

Following the previous Committee decision to move funds from ESF Priority 3 to Priority 1, the funding available was as follows: £33m in Priority 1; £68.7m in Priority 2 and £6.5m in Priority 3.

A lower than anticipated grant intervention rate had been noted for ERDF/ESF, enabling more activity to be undertaken. As the financial plan had been accounted for in Euros, this also meant that more monies were available for allocation. A large number of strategic bids had been approved across a good geographical spread. A high concentration of projects specifically based on Lisbon criteria had been noted.

Committee were advised that there was a low level of projects targeted in rural areas; solutions to this would be proposed within agenda item 10.

61% of projects were focussed on Scotland-wide locations.

**LUPS/10/02/03
For Decision**

Referring to N+2, the current target allocations were: £66.5m ERDF with commitments in the system at £107.5m; £47.2m ESF with commitments in the system of £115m. N+2 for 2009 had been achieved and currently progress towards achieving the target for 2010 was good. It was anticipated that the JESSICA project would assist in achieving N+2 for ERDF. However, the IAB were mindful that there continued to be a number of issues with the claims process, although it was anticipated that the forthcoming workshops would assist in resolving any common problems and speeding up the process.

Committee members were advised that two projects had recently altered their lead sponsors. The Hydrogen Office lead sponsor was now the University of St Andrews, and the Sporting Chance Initiative lead sponsor would now be the University of Stirling. Scottish Government acknowledged and accepted the changes to the lead sponsor information and anticipated that this would assist the progress made by these two projects.

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

The Commission welcomed the detailed presentation and added that N+2 was a shared problem for Committees across all Member States.

(Dame Barbara Kelly joined the meeting)

However the Commission (GK) did not share the IAB's optimism at achieving N+2 for ESF and suggested that monthly monitoring of spend followed by reports to the Commission may be required. It was also suggested that an Action Plan be developed for specifically monitoring ESF Priority 2, followed by a review of performance in June 2010.

Whilst the Commission acknowledged the need for an increase in spend to achieve N+2, they enquired whether the IAB had removed the optimism bias of 30%. The IAB responded that some account was taken of profiled project expenditure in the second half of the year in calculating the figures. However the IAB were currently developing an Action Plan with Scottish Government regarding the current delays with claims processing and it was hoped that these could all be brought up-to-date in the near future. The IAB were aware that there was a real need for applicants to spend to profile and it was stated that this was now being more closely monitored as part of a more pro-active portfolio management.

A member of the Committee raised concern that the content of the presentation did not overlap with the written paper. The Convener noted that the presentation could only draw out the main points of the paper, but agreed that inconsistencies should be avoided.

Enquiries were raised regarding the method behind the 20% desk-based checks. The IAB advised that the 20% checks determined what expenditure was ready for Scottish Government to declare to the Commission. It was therefore imperative that the checks were robust. Again members noted that this process would be addressed with sponsors during the proposed workshops.

Referring to the virement between ESF Priority 3 and Priority 1, a query was raised about the treatment of over-commitment. The IAB responded that any recycling of funds due to over-commitment would be in addition to those figures shown.

(David McBeth joined the meeting)

The Commission referred to the indicators within the paper for ERDF Priorities 1 and 2. It was suggested that the figures quoted were unrealistic regarding Priority 1 and the number of enterprises supported. Regarding Priority 2, concern was raised regarding the number of new business start-ups and the potential for creating over provision of business space. Referring to Priorities 3 and 4 and square metres of business space, it was noted that the forecast was four times the target and concern was raised that this may be overstretching against demand and care should be exercised in this regard. The Convener suggested that separate discussions take place between the Commission, the IAB and Scottish Government to resolve these concerns.

In summary, the Convener welcomed the guidance provided by the Commission and noted that the N+2 Action Plan would be implemented by the IAB. The Convener stated that, at its next meeting, the Committee would be asked to consider the best use of the Funds available within the remaining programming period.

The Committee Agreed The Recommendations.

5. Strategic Delivery Body – Presentation by Scottish Enterprise/Scotland Europa

The Convener welcomed and introduced Karen Fraser and Donald MacInnes. The SDB had received significant grant allocation of £20m in the ERDF Programme Priority 1 and Committee members had requested an update on Scottish Enterprise's progress to date.

Scotland Europa described the projects currently being funded. They would be fully assessed over the next couple of years. For the present, it was clear that, due to the current economic downturn, more time would be required to deliver the projects; there was a need to review the proposed spend and targets accordingly. Committee members agreed that, at this point in its implementation, it was too early to assess the long-term impacts and results of the overall SDB programme. On specific initiatives, it was noted that the Proof of Concept initiative was particularly successful in the Edinburgh area.

The Convener thanked Karen Fraser and Donald MacInnes for their presentation and enquired whether, in their view, the expected advantages of creating the SDB were being demonstrated. SE advised that it was working more strategically across a larger area and with an administration burden that was now more manageable.

The Committee representative from SE advised that the SDB allowed Scottish Enterprise to respond to opportunities within the economy that were not previously easily accessible i.e. the renewable sector. Only the strategic approach of the SDB could accommodate the time critical nature of such projects. Referring to the Proof of Concept, the SDB had enabled a more seamless approach to delivering this scheme across Scotland. The impact of the economic downturn was acknowledged; however, with a little adjustment, as advised, it was hoped that the SDB could deliver the same impact on time and to budget.

In response to an enquiry about the geographical spread of activity, and what portion of this was rural, SE advised that the majority of applications had been received from the East. However, the SDB were very keen to encourage new initiatives in rural areas. A

significant amount of time is spent encouraging projects from outwith the Edinburgh/Glasgow area, although unfortunately take-up to date has been low.

SE was asked about the cross-over role of the SDB and Scottish Enterprise, with reference to the overheads of the SDB. SE advised that a team of 9 were employed (6 in Glasgow, 1 in Dundee, 1 in Galashiels and 1 in Glenrothes). Each project submitted is processed by a project manager who then develops the European funding elements required. Regarding ERDF funding, members were advised that none of the funding received goes to Scottish Enterprise, and it is not apportioned to the overheads.

SE also advised that Scotland Europa were their representation in Brussels. None of the funds from the SDB were used for funding Scotland Europa. The Committee representative of SE advised that alternative European funding for SE was gained through investment product monies and the SDB aligning European elements with the domestic budget of £300m. Other applications for funding could only be made if they were external to the SDB; however, this may be adjusted over time.

The Scottish Government provided some further background information on the SDB. £20m had been ringfenced for SE from which the SDB was established. Projects could be directed to the SDB for funding from the Advisory Groups. The SDB allowed a changeover of projects and a better level of quality assurance. A systems audit of SE's control system had been undertaken and given a clean bill of health indicating that funding was being used for eligible activity. Regarding progress for the SDB, careful consideration regarding the way forward for Priority 1 would require to be reached by the Committee at the May PMC. This would determine that a tight line required to be taken with the SDB regarding the potential for slippage. It was clear that if the SDB did not deliver, then this would have a significant impact on Priority 1 achieving N+2. It was imperative that the SDB (or alternative) made use of the full £20m allocation.

The Scottish Government also advised that the evaluation of the SDB had yet to take place. Scottish Enterprise would be responsible for the evaluation of the projects supported by the SDB, and the SG would be commissioning an evaluation to look at the value added from allocating European funds to the SDBs. It was expected that a report would be available in late 2010 or early 2011.

The Convener thanked Karen Fraser and Donald MacInnes for their presentation and participation in the question/answer session.

6. Consideration of ESF Advisory Group Reports and Project Recommendations and Discussion on Strategic Funding Priorities

The Convener invited the IAB to provide a summary of the applications received.

The deadline for the 2nd stage bid applications had been 9 October 2009. A total of £43.2m ESF grant had been requested. The Committee noted that £20m had been moved from Priority 3 to Priority 1 by virement. A total ESF grant of £30.2m would be made for this round subject to Committee agreement to all the recommendations of the Advisory Group.

ESF Priority 1

Within ESF Priority 1, a total of 65 second stage applications were submitted, all of which were submitted to the Virtual Advisory Group for scoring. The Standing

Advisory Group considered 16 applications. 50 applications were recommended for approval subject to conditions, 14 applications were not recommended and 1 application was deferred. A total of £19.9m ESF grant was recommended for approval.

6.1 City of Edinburgh Council HSNC – Progressing to Employment with Personalised Support

The Advisory Group felt this was a strong application, which justified its case for multi-annual funding, and recommended that request for £1.2m funding for the full two years should be granted.

6.2 Remploy Ltd Putting Ability First Stage 2

Advisory Group recommendation was that this project should receive funding initially for 1 year. However, upon re-application, there remained a number of outstanding issues including the lack of submission of a report to the IAB. The Advisory Group recommend that this application be deferred until these matters had been resolved.

6.3 The Venture Trust Inspiring Young Futures

Following clarification on a number of points highlighted, the Advisory Group agreed that this project be funded for 2 years only.

6.4 The Scottish Funding Council The College Sector: Investing in Recovery

The Advisory Group felt that this project was complementary to the activity of the CPPs; however, discussion required to be held to ensure that the additional College places fitted with the strategic plans of each area. Some concern had been raised regarding the length of the project and proposed targets, notwithstanding the Advisory Group recommended that funding be approved.

ESF Priority 2

Referring to the ESF Priority 2 applications, a total of 30 applications were submitted. 29 applications were scored by the Virtual Advisory Group. The Standing Advisory Group considered 8 applications. 23 applications were recommended for approval subject to conditions, 5 applications were not recommended, 1 application was deferred and 1 application was withdrawn by the project sponsor. A total of £10.3m ESF grant was recommended for approval.

6.5 The Scottish Council for Voluntary Organisations Sustaining Future Jobs

This application had originally been submitted in September 2009; however, concerns had been raised regarding the proposed activity and value for money. An appeal was made by SCVO and the application was re-submitted to the Advisory Group for consideration, with a presentation made to members. The Group requested clarification from SCVO on a number of areas, and were satisfied with the response received. The Advisory Group recommended funding the project for 1 year with a review at 6 months. As a condition of grant, SCVO were required to report on a monthly basis to the IAB with a report submitted to the Advisory Group at the 6 month review stage. Compliance with these conditions would determine whether additional funding would be granted.

6.6 Adam Smith College PROSPECT

An application had been received for £1.5m funding for a 2 year project, with a presentation made to the Group. Members had raised concern regarding implications of State Aid, and potential duplication with Business Gateway. These issues had been addressed and the Advisory Group recommended funding this project. As a condition of grant, the sponsor required to work with other agencies to ensure partnership working across all the proposed areas is well co-ordinated and that relevant agencies are fully aware and supportive of the project.

6.7 The Saltire Foundation: The Saltire Fellowship

This project had applied for a grant of £1.6m for a period of 3 years. A presentation was made to the Group. This project would involve students studying in the USA with work placements in high growth companies to develop their skillsets. Concern was raised by members regarding the lack of involvement with Scottish Universities; however, it was recommended that the project be funded for 1 year with recommendations that the Saltire Foundation engage with Scottish Universities during that period. It was also recommended that some aspects of the project be delivered in Scotland in the interests of environmental sustainability.

6.8 Glasgow City Council Commonwealth Games Apprenticeship Initiative

The project had applied for £2.7m funding. Members were concerned that the application lacked evidence of demand, did not have clear target figures and had the potential for duplication with the Scottish Government Action Plan. Following discussion, the Advisory Group agreed that a decision on this application be deferred. The sponsor would be contacted and advised to remove the pre-employment and job brokerage aspects from the application, and thereafter re-submit. The project could potentially be fast-tracked.

6.9 Glasgow City Council Skills and Business Growth

This application was seeking an ESF grant of £1.18m for three years. The Advisory Group agreed that this project demonstrated good partnership working across a number of local authority areas, was a good strategic fit and the evidence of demand was clear. The Group recommended that funding be granted for the full 3 years.

6.10 Renfrewshire Council Job Retention and Workforce Development

The Group felt that this was a well written application and recommended that it receive the full £1.19m funding for 3 years.

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

Referring to the Saltire Foundation application, the Commission enquired whether this project was in line with the Operational Programme, and raised concern regarding the lack of liaison with Scottish Universities. Concern was also raised regarding value for money given that from 4100 participants in the project, only 20% were likely to move into employment.

(R Bell, D Mackinnon and G Hyslop left the room)

Scottish Government responded that the Saltire project had an absolute fit with the Operational Programme. There was a need to inspire people in Scotland to be world class entrepreneurs through the opportunity of training in the USA provided by this project. The grant would support applicants with their fees for living overseas and the opportunity would assist in progressing into employment with Scottish companies upon their return. Referring to the lack of liaison with the Scottish Universities, Scottish Government advised there was a need to expose the Universities to American entrepreneurs in order to gain experience in the American high growth organisations. Consideration had been given to joint working between Scottish and American Universities. On a separate point, the Advisory Group had noted the lack of women taking up this opportunity.

The Committee felt it was important to achieve greater buy-in from the Universities and Scottish Enterprise if the project were to continue on from the initial funding period. The representative from the University of Strathclyde indicated that he would welcome an approach to discuss project opportunities in greater detail.

The Committee also suggested that Scottish Enterprise (SDB) should have been the applicant, given their experience and profile which could have enabled a greater buy-in than that achieved by Saltire. Scottish Government advised that, given Saltire ran the fellowship, it was appropriate that they were the applicant at this time. The purpose of the 3 year fund was to identify philanthropic business people who could assume the role of funder for the future of the project.

The Convener thanked Committee members for their constructive comments on the Saltire application and agreed that the relevant points would be incorporated in the offer of grant.

With reference to the Scottish Funding Council application, the Committee requested clarification on the rural element of the project. The Scottish Government advised that this project was specifically targeted at Priority 1 which included areas of Fife, East and North Ayrshire; however, this was a mainly urban-based project.

The lack of improvement in the labour market in the preceding 12 months was noted, with reference to the increasing numbers of redundancies. The Scottish Government responded that additional college places had been identified to offer to those individuals that may not receive job offers; however, it was acknowledged that their position in the workforce may not be any better after undertaking a 1 year course. Unfortunately the Scottish Funding Council application would only run for one year, and members agreed this was a regrettable circumstance.

The Commission raised concerns regarding the overall fit of this project and suggested that discussions be held with the Funding Council to assess their viability as an intermediate advisory body. It was felt that £6.8m for a one year project deserves further consideration by Scottish Government and the Managing Authority. The Convener welcomed the opportunity to discuss this matter further

The view was expressed that the colleges were currently oversubscribed and a number of young people were being let down by the system. Whilst very supportive of the bid, some concern remained regarding potential replication within the SCVO bid. The implications on workloads for both the Managing Authority and IAB pertaining to the receipt and review of the monthly reporting requirements of the SCVO application were noted, as was the need to ensure that this project was achieving its targets.

The Convener noted the comments raised by Committee.

***The Committee Agreed to Fund the SCVO and
Scottish Funding Council Projects.***

(R Bell, D Mackinnon and G Hyslop rejoined the meeting)

For the benefit of those rejoining the meeting, the Convener summarised the actions agreed and advised the representative of the Scottish Funding Council that a meeting would be held to discuss the management of the bid. The representative of SCVO noted that the application had been approved for 1 year, subject to agreement to a reporting process.

The Convener then referred Committee to the additional recommendations within the paper.

The Committee Agreed the Recommendations of the Paper.

The Convener recorded his thanks to the Advisory Group for scoring the projects and addressing a number of difficult issues within the applications.

7. Exceptional Projects Procedure – Consideration of ERDF Strategic Projects: Scottish Investment Bank Loan Funds - Presentation by the Scottish Government

The Convener introduced Ian McCall and Wilson Malone of Scottish Government, and Brian McVey of Scottish Enterprise, who gave a short presentation.

The Committee noted that the private sector was the driving force behind growth in the current economic climate. Currently, banks had withdrawn from the high risk-high return opportunities and this had created a gap in the market for debt finance. It was anticipated that banks would continue to move further away from the debt finance market. Significant research had been carried out across the country which confirmed that business growth in the UK was stilted. Information gleaned, including data from Companies House, also indicated the need for debt finance. Whilst it was noted that £50m (£20m ERDF; £30m Scottish Government) would not address the demand completely, it was anticipated that match funding could be levered from the private sector on an equal risk/equal return basis. It was suggested that this proposal could aid economic recovery in Scotland.

The Convener referred to the correspondence received and tabled from the representative from North Ayrshire Council. The IAB were invited to provide an overview of the Standing Advisory Group process and procedure after which Committee members would be invited to comment on the presentation received. Committee noted that a detailed presentation had been made to the Standing Advisory Group by Scottish Government, and, whilst the full market gap analysis had not been available to share at that time, it was provided at a later date. The Standing Advisory Group were happy with the comprehensive synopsis received, and the responses to the concerns raised. Both the Standing and Virtual Advisory Groups had scored the application. The Convener was fully content that due process had been followed.

Whilst it was noted that this project would not overlap current provision, Committee members enquired how it would fit in practice. Mr Malone advised that the Scottish Investment Bank (SIB) would be used for the more risky finance opportunities i.e. applications up to £250k. It was anticipated that a large number of organisations would be applying for funding.

Those present noted that, whilst LINC Scotland were currently providing funding to already established companies, it was not possible to support new business and the potential of the SIB fund was very much welcomed.

The Commission voiced their support for this type of legacy fund, and had welcomed the detailed analysis indicating that the fund was fit for purpose which would assist the Committee in reaching a decision on this application. The Scottish Government advised that the long-term aim was to encourage flexibility of the fund, thereby creating a legacy post 2013. However, the Commission highlighted the need to ensure that the fund would address the target market appropriately and provide enough flexibility. All present acknowledged that the market was still extremely volatile and constantly changing. The Commission registered their interest in monitoring this project, and how it would evolve to address funding requirements in future.

Mr Malone added that, given the extent of the fund, it was likely that there would be a high rate of draw-down within the first 2-3 years. The Committee noted that further discussions could be held regarding the capitalisation of ERDF funding. Currently, a buy-in of £20m ERDF would assist in achieving N+2 although these monies would require to be paid in tranches.

The Convener thanked the Scottish Government for their comprehensive presentation and advised that, following the Committee's discussions, feedback would be provided.

(Ian McCall, Wilson Malone and Brian McVey left the room).

Following reassurance from the Convener that robust monitoring of the project would be undertaken, Committee members indicated their support of the application.

The Committee Agreed The Recommendations.

8. Consideration of ERDF Advisory Group Reports and Project Recommendations – Report by the Scottish Government

The Convener invited the IAB to provide a summary of the applications received.

The deadline for the 2nd stage bid applications had been 9 October 2009. A total of £114.6m ERDF grant had been requested.

A grant of £36.3m would be made for this round subject to Committee agreement to all the recommendations of the Advisory Groups.

8.1 ERDF Priority 1

22 second stage applications were submitted, of which 21 were issued to the Virtual Advisory Group for scoring, although 1 application was withdrawn prior to scoring commencing. 11 applications were discussed. 13 applications were recommended for approval subject to conditions, 4 were not recommended, 3 applications were deferred and 1 application was withdrawn following the appraisal process. A total of £9.3m ERDF grant was recommended for approval.

The Committee noted that a maximum grant of 37% would be provided for revenue applications, and only those with appropriate justification would receive in excess of this.

The Advisory Group agreed that overall 5 applications should be supported. However, in the interim, one application had been withdrawn, 2 applications were not recommended for approval due to poor fit and 3 applications were deferred.

An additional application had been submitted requesting a grant in excess of £1m from Edinburgh Napier University Business and Technology Hub. The Group considered whether this represented good value for money, after which it was agreed that funding be granted on the condition that consideration be given to streamlining of the Knowledge Transfer activities between new and existing projects.

8.2 ERDF Priority 2

The Committee noted that 10 second stage applications had been received, 5 applications were discussed, with 4 recommended for approval subject to conditions. There were 5 applications not recommended for approval. A total of £6.9m ERDF grant was recommended for approval.

The Convener made reference to the tabled correspondence from the representative of North Ayrshire Council, who had raised concern regarding the lack of support for the local authority applications seeking to enhance the Business Gateway product. The IAB responded that they and Scottish Government had held a meeting to discuss this matter with David Valentine of Business Gateway, following which a strategy was being developed to allow SLAED to lead a project at national and local level that would assist in bringing businesses out of the recession. This matter would be discussed further with Scottish Government policy advisers, following which an application would be submitted.

The Group discussed the application from Fife Council East of Scotland Investment Fund, which was seeking £2m towards a £5m loan fund. The Group agreed to support this application given the evidence of demand for the fund.

8.3 ERDF Priority 3

The Committee noted that 26 second stage applications had been received, 17 applications were discussed, with 9 recommended for approval, 13 not recommended and 2 applications were deferred. A total of £11.3m ERDF grant was recommended for approval.

Of the 17 applications discussed, 5 applications were recommended for funding, 10 were not recommended due to technical and eligibility issues, with 2 applications being deferred.

The IAB advised that a number of applicants had been seeking funding for business space. This was being considered given the number of applications received and their close geographical proximity.

Two applications received had been for grants in excess of £1m. Following due consideration, the Group agreed to support the applications from City of Edinburgh Council (Incubate to Regenerate) and Strathclyde Partnership for Transport (Redevelopment of Dalarnock Rail Station).

8.4 ERDF Priority 4

It was noted that 10 second stage applications had been received, 8 applications were discussed, with 6 recommended for approval subject to conditions, 4 applications were not recommended. A total of £4.6m ERDF grant was recommended for approval.

Of the 8 applications discussed, 6 applications were recommended for funding. Two applications were not recommended for approval due to technical and eligibility issues and/or a poor fit with ERDF Priority 4.

8.5 ERDF Priority 4 – South of Scotland Global Grants Body (GGB)

The IAB advised that 4 second stage applications had been received and were discussed by the Advisory Group. As all applications had scored extremely well the Group recommended approval (subject to conditions) for all 4 applications. It was noted that additional information was required from 3 of the applications. A total of £4.1m ERDF grant was recommended for approval, leaving a balance of £10.6m available for future rounds in the South of Scotland Global Grants under Priority 4.

The IAB provided an update on current progress with the Global Grants Body.

The Committee noted that on 22 January 2010, the Commission had formally approved the expansion of the scope for Priority 4 and the use of private sector match funding with immediate effect.

The IAB further advised that the MA had held discussions regarding the specific regulatory provision under Article 55 (Revenue Generating Projects). The MA would provide an update to relevant applicants following the completion of guidance relating to appropriate time frames for the consideration of cash flows.

The Convener thanked the IAB for the report and invited the Committee to comment.

A member of the Committee raised concern that an application for a business development grant scheme had been unfairly dismissed. The IAB responded that the application had raised a number of concerns with the Advisory Group which were unresolved and they were therefore unable to grant funding on this occasion. The Scottish Government agreed to discuss this separately in more detail with the Committee member following the meeting.

Referring to Priority 2, there was an enquiry about the omission of a particular application, as it was believed there have been others for this Priority. The Scottish Government advised that the third application had scored so poorly with the Advisory Group that it had not been taken forward; however, if the applicants were in a position to clarify eligibility then the application could be resubmitted.

The Scottish Government advised that, whilst the balance of Priority 1 had been reported at £6.7m, this figure had increased to £8.7m following a recent withdrawal by an applicant.

The Commission acknowledged the long term challenges of the fund, but enquired whether there had been any new policy developments in relation to climate control and potential implications for renewable energy funds. The Scottish Government reported that the Advisory Group were aware of the policy direction, but added that projects had not been commissioned and had been made in an open bidding round. Further discussion was being held and a report would be made at the May PMC meeting regarding the potential need for project commissioning across wider priorities.

The Committee Agreed The Recommendations Within Section 6.

The Convener thanked the IAB for their report, and acknowledged the work carried out by the Advisory Groups in the review and scoring of projects.

The Commission welcomed the structure and transparency of the reports made by the IAB.

Given the time constraints, the Convener suggested that the MA and IAB submit joint reports to the May PMC in relation to the use of the remaining ERDF and ESF funds. Committee members were asked to email any views on this to the respective Scottish Government contacts.

9. JESSICA Fund for Scotland – Investment Strategy

The Convener advised that this item would be issued to Committee members via the Written Procedure arrangement for decision.

10. Technical Assistance – National Visitors Survey

The Convener indicated that the Commission had advised that funding would not be eligible to facilitate this survey. The Commission would respond further on this matter.

11. Rural Development Scoping Workshop

The IAB reported that a workshop had been held on 14 December 2009 in Stirling, encouraging the diversification of projects eligible under ERDF Priority 4. The event had been well attended with representation made from local authorities (including Fife and South Lanarkshire), colleges and VisitScotland. A brainstorming session had identified 3 areas for taking forward:

- ♦ Rural Town Centres
- ♦ Sector Priorities and Supply Chain Linkages
- ♦ Rural Knowledge Exchange and Knowledge Transfer

A summary note of discussion had been circulated to members.

It was anticipated that the outcomes of the workshop would effect more collaborations and bring forward better quality proposals. Attendees had been asked to indicate interest in developing this initiative and taking it forward on a broader spectrum to

develop and bring forward strategic level projects specifically targeting rural businesses. This had been received positively, and it was likely that a paper would be developed for the October PMC meeting.

The Committee noted that a similar workshop had been held in the South of Scotland on 25 February 2010, with involvement from the MA and IAB. A number of additional organisations had been identified for involvement in future discussion.

The Scottish Government added that the event had been well attended by more than 30 individuals, where it had been acknowledged that unless projects were submitted under Priority 4, there was the potential for virement. Possible target areas had been identified as heritage projects and market towns. A number of potential project ideas had been discussed and were likely to be submitted in Autumn 2010.

Committee members commented that the Global Grants Body had commenced a year later than expected, during the depths of the recession, and it was hoped that virement would not be initiated without taking this into consideration. It was hoped that suitable proposals could be identified to make best use of the funding available, and in turn meet the Lisbon criteria. The Committee were also keen to introduce green options and encourage more business from the urban areas to the rural. In addition, the opportunity to raise the profile of the colleges within Priority 4 was also welcomed.

(D Grahame left the meeting)

The Commission welcomed the progress made in this area, but suggested that consideration should also be given to other areas for development i.e. ICT, urban/rural linkages getting businesses to work together and renewable energy. The Commission would be happy to discuss these options in more detail.

The Commission referred to the Rural Development Programme in Scotland, which was similar to Priority 4, and emphasised that linkages should be made where possible. The Convener noted that Rural policy officials were represented at this PMC meeting by Angela Wiseman (Committee Member) and Michael O'Neill (observer).

The Committee Agreed The Recommendations.

12. Any Other Business

12.1 ESF Operational Programme Toolkit

A member of the Committee enquired regarding progress with the toolkit proposed by Scottish Government within the Operational Programme. It was likely that an update on the current state of the economy could reduce the amount of discussion held at future PMC meetings. The Convener agreed to place this item on the agenda for the May meeting.

12.2 Scottish Enterprise Response On Horizontal Themes

Following a Committee suggestion, the Convener agreed to obtain a response from Scottish Enterprise regarding their performance with Horizontal Themes.

12.3 Participation in Cross-Border Programmes

The Commission were keen to receive a progress report on this matter at a future meeting. The Convener agreed to make enquiries and suggested that an update from INTERREG may also be appropriate.

12.4 Labour Market Impacts

The Commission wished the Committee to be absolutely clear on the current position within the new labour market, what the likely recovery time could be and also take into account implications of the forthcoming budget announcements. Consideration should also be given to exit strategies for sectors. The Convener welcomed the opportunity for a Commission presentation at the May meeting on “EU2020” and how Structural Funds would contribute to Europe’s economic development during 2011-2013 and into the future.

In closing the meeting, the Convener thanked all present for attending and contributing to a robust and productive discussion.