

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

**PROPOSED CHANGES TO THE ERDF OPERATIONAL PROGRAMME
REPORT BY THE SCOTTISH GOVERNMENT**

1. Purpose

- 1.1 To seek the Committee's agreement to the proposed changes to the ERDF Operational Programme as set out below.

2. Introduction

- 2.1 With the first approval round almost concluded a number of key elements of the new ERDF Programme have created particular challenges to prospective applicants. If these issues are not effectively addressed they could constitute significant barriers and constraints in the successful implementation of the Programme and more specifically the achievement of Programme objectives and targets. Equally, with Glasgow succeeding in hosting the 2014 Commonwealth Games, this now represents an unprecedented opportunity for the Lowlands and Uplands Scotland Operational Programme to assist in the regeneration of an area of Glasgow long characterised by dereliction, deprivation and economic and social exclusion.

3. ERDF Operational Programme

- 3.1 **Major Projects:** It is now recognised that there is the need to incorporate the scope for major projects (i.e. projects with total costs in excess of €50m). Thus for example the Scottish Centre for Regenerative Medicine (SCRM) currently undergoing appraisal in the first round Priority 1 has total costs in excess of £60m. This is a significant and strategic project in the Scottish Life Sciences sector and adds a much needed and time critical component to the sectors growing international standing and presence.

- 3.2 **Commonwealth Games:** With Glasgow hosting the Commonwealth Games in 2014 we have a clear opportunity for the Lowlands and Uplands Scotland ERDF Programme to provide support to a range of eligible activities connected with employability and regeneration that hosting the games will deliver to an area with a high concentration of deprived neighbourhoods. The high profile of the Games and the additional public and private sector investment that will result also provides an excellent opportunity to put ERDF interventions in place that will further demonstrate the benefits of ERDF investment to citizens.

The Games offer an unprecedented opportunity to provide a real and tangible



legacy to the people of Scotland, and in particular to the communities and residents of the East End of Glasgow who have endured profound and enduring economic and social exclusion. The plans for the completion of low priority and/or ineligible elements of the Games (eg stadia and housing improvements) are already well advanced and funding is in place. However, it will be important to introduce into the Programme, particularly at Priority 3 ERDF, specific reference to the Games and the potential for European funding to help exploit and maximise sustainable regeneration and employability outcomes for Glasgow.

3.3 ERDF Priority 4, Rural Development: There is a recognition that the scope of eligible activities under the Rural Development Priority is drawn too tightly and is consequently very restrictive. This is more than evidenced by the very low level of activity presented in the first round. Only 6 projects have come forward in the first round, two of which are national projects submitted by VisitScotland. With one exception they are all multi-annual bids (3 years) seeking total grant of c£3.5m against a total allocation of £35m over the Programme period. This does not however, include the allocation for the South of Scotland Global Grants Agreement.

It is therefore proposed that there should be a number of limited relaxations in respect of certain scope points under the Eligible Activities section of Priority 4. This fine-tuning would still align with the overall aim and objectives of Priority 4 and indeed respect the Commissions Community Strategic Guidelines 2007-2013, specifically in regard to the section entitled "Support for the economic diversification of rural areas, fisheries areas and areas with natural handicaps".

Thus with regard to Rural Diversification, first Scope point, it is proposed to remove the narrow reference to sector wide market development initiatives and replace this with a more generic reference to *business support activities aimed at strengthening traditional based industries*.

Concerning Key Shared Services it is proposed to remove the limitation on small scale business site development and replace with *"support for the development of business premises and development sites to attract the inward flow of businesses, people and ideas"*.

In addition it is proposed to introduce a new scope point which recognises the value and importance of natural and cultural assets to the rural economy, and where they can directly and positively contribute to the Tourism offering of the region. The additional scope point should read as;

"support for the development of the regions natural and cultural assets where this directly contributes to the economic prosperity and diversification of the area".



- 3.4 Private Sector Finance:** The financial tables of the ERDF Operational Programme are based on financial contributions from Community Funding (EU Structural Funds) and National Public Funding. Unlike previous programmes there are no indicative contributions from the private sector. This simplified approach was justified on the basis that where private sector contributions were identified as part of the overall co-financing on past Programmes, this placed an additional requirement and demand on programme management and implementation to achieve the requisite level of private sector co-financing set out in the financial tables. Failure to achieve the “indicative” level impacted negatively on the ability of the Programme to draw down the full amount of ERDF. Given the open and competitive nature of Scottish Structural Fund Programmes it was difficult to estimate the likely level of private sector finance, although it was possible to identify those activities and development priorities where it could be expected to see private sector investment.

One such activity is in the field of risk capital where it is desirable and necessary to have private sector capital. The involvement of the private sector in equity funds brings with it a number of critical benefits including commercial awareness, market knowledge, investment appraisal and a level of confidence and assurance that the public sector intervention is justified and should not distort the market. Accordingly, it is now considered necessary to introduce a level of private sector finance to ERDF Priority 2 in order to provide for better gearing where the private sector co-finance can also be used as leverage for ERDF, thus making it more attractive to private, corporate and institutional investors to come forward and provide capital to a range of risk capital funds including the Scottish Co-Investment Fund.

4. Recommendation

- 4.1** The Committee is invited to endorse the proposed changes to the ERDF Operational Programme.

March 2008