



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

FINANCIAL AND PHYSICAL PROGRESS REPORT ON THE IMPLEMENTATION OF THE ERDF AND ESF PROGRAMMES

1. Purpose

- 1.1 To advise this Committee of the current position regarding the financial and physical implementation of the Lowlands and Uplands Scotland ERDF and ESF Programmes 2007 – 2013 against agreed Programme indicators and targets. This assessment will be done in terms of project commitments approved to date and activity already undertaken. The data has been gathered from approved project forms. The full range of financial information is summarised in the attached **Annex 1**. In addition, an analysis has been undertaken of ESF commitments to date in order to identify participant beneficiaries in respect of gender, prime target groups, secondary target groups, age breakdown and ethnic breakdown. This is attached for information as **Annex 2**.
- 1.2 This paper will also advise the Committee on the current position regarding the progress made to date in achieving the approved N+2 targets for 2009 and future years. This is attached as **Annex 3**.
- 1.3 The final section of this report provides details of the final list of activities which will be undertaken by Scottish Enterprise as part of their previously agreed SDB bids.

2. Implementation of the ERDF Programme

- 2.1 The attached ERDF parts of **Annex 1** aim to provide a range of financial information essential to monitoring the implementation of the ERDF Programme. In summary, **Annex 1 (pages 1 and 2)** provides both a summary of the approved financial plan for the ERDF Programme and details the level of project commitments made to date for each of the Programme Priorities in these different categories. This information is presented in terms of the whole Programme period. As a result, this part of **Annex 1** enables a comparison to be made between current project commitment levels and the maximum allocations in the approved financial plan for each Programme Priority. For ease of reference, the key information for the ERDF Programme is summarised below.

Cumulative Summary of Financial Performance in ERDF Programme to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
1st Challenge Round	42	221,535,437	62,902,879	1,397,962	522,250
SDB	2	44,444,373	19,999,967	0	0
CPP	13	31,848,726	11,692,493	0	0
Global Grants Body	0	0	0	0	0
Technical Assistance	2	8,411,964	4,205,982	0	0
Total	59	306,240,500	98,801,321	1,397,962	522,250

*The total approved ERDF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for ERDF Programme envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate - Commitments	Average Grant Rate – Payments
Total	41.32%	32.26%	37.36%

- 2.2 A review of progress to date in the ERDF Programme indicates a solid start has been made with forecast grant totalling nearly **30%** of the available programme allocation being made after the 1st application round. The overall level of ERDF grant committed to projects to date is **£98,801,321** and ERDF grant payments totalling **£522,250** have been made to sponsors. An operational work priority in the ERDF Programme in recent months has been to ensure that formal ERDF grant approval letters are issued to sponsors to enable them to submit grant claims using the €UROSYS system. This exercise has progressed well and the levels of claims received by the IAB are increasing. However, the grant payment figure only relates to those claims which have physically been paid by the Scottish Government. With regard to the forecast commitments already made in the Programme, the average ERDF grant intervention rate being requested is well below the approved average for the ERDF Operational Programme and if continued should enable significantly more activity to be supported.
- 2.3 Notwithstanding the solid start made to the ERDF Programme overall, it should be noted that performance across all four operational priorities is mixed. Although there is a high commitment level in Priority 1 – Research and Innovation there are very low commitment levels in Priority 3 – Urban Regeneration and Priority 4 – Rural Development which will require further development work with sponsors in future application rounds to stimulate activity.
- 2.4 A full analysis of implementation to date in each ERDF Priority is now provided in this report which seeks to assess forecast and actual performance against the approved financial and output/result/impact indicator targets. This data has been gathered from all currently approved applications in the respective Priority. **Please Note:** The current weakness in sterling means that the notional value of the ERDF Programme which was agreed in EUROS has increased since the last meeting. However, it should be noted that this situation is not

fixed and may change over the life of the Programme if the value of sterling appreciates against the EURO.

- 2.5 For the purpose of this report and to enable realistic comparisons to be made, **an average exchange rate of 1 EURO = £0.884533 or £1 = 1.13054007 has been used.** This average exchange rate is based on actual ERDF grant drawdowns received to date by the Scottish Government Certifying Authority and on the March 2009 exchange rate of 1 EURO = 0.8913 or £1 = 1.121956692

2.6 PRIORITY 1: RESEARCH AND INNOVATION

Cumulative Summary of Financial Performance in Priority 1 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
1st Challenge Round	18	121,328,325	23,800,434	440,120	175,437
SDB	2	44,444,373	19,999,967	0	0
CPP	N/A	N/A	N/A	N/A	N/A
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Total	20	165,772,698	43,800,401	440,120	175,437

*The total approved ERDF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for Priority 1 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate – Commitments	Average Grant Rate – Payments
Total	45.00%	26.42%	39.86%

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	4,503	54%	180%	53	0.22%	2%
Number of research networks/ collaborations supported	600	519	54%	86%	6	0.22%	1%
Number of renewable energy projects supported	150	165	54%	110%	0	0.22%	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 products and services developed by supported enterprises	1,800	1,161	54%	64%	0	0.22%	0%
Increase in turnover by supported enterprises (£m)	150	215.56	54%	144%	1	0.22%	1%
Number of new products and services developed by supported research networks	900	197	54%	22%	0	0.22%	0%
Number of gross jobs created	6,100	4,195	54%	69%	11	0.22%	0%
Number of net new jobs created	*	*	54%	*	*	0.22%	*
Increase in research/innovation expenditure by supported enterprises	*	*	54%	*	*	0.22%	*

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

Progress to Date in Implementing Priority 1 and Key Operational Issues

There has been strong interest in this priority to date and nearly **54%** of the available budget was allocated in the 1st application round to 20 projects. Amongst this allocation figure are included the two SDB bids submitted by Scottish Enterprise which have been awarded nearly £20 million grant. As a consequence of this relatively high commitment level combined with the average ERDF grant intervention rate for these commitments being significantly below the approved average for Priority 1 has resulted in some of the indicators already being forecast for full achievement. This is of course dependent on all approved commitments being fully delivered in accordance with their applications.

2.7 PRIORITY 2: ENTERPRISE GROWTH

Cumulative Summary of Financial Performance in Priority 2 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
1st Challenge Round	19	91,710,211	35,994,495	564,661	204,847
SDB	N/A	N/A	N/A	N/A	N/A
CPP	N/A	N/A	N/A	N/A	N/A
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Total	19	91,710,211	35,994,495	564,661	204,847

*The total approved ERDF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for Priority 2 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate - Commitments	Average Grant Rate – Payments
Total	40.00%	39.25%	36.28%

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	2,237	33%	895%	0	0.19%	0%
Number of individuals/ enterprises receiving advice/ consultancy	11,600	19,303	33%	166%	675	0.19%	6%
Number of enterprises receiving support for e-commerce	5,700	2,770	33%	49%	35	0.19%	1%
Number of enterprises receiving support for energy-saving and resource efficiency	5,700	2,644	33%	46%	0	0.19%	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
Increase in turnover in supported enterprises (£m)	140	372.9	33%	266%	12	0.19%	9%
Number of new business starts	5,500	4,655	33%	85%	122	0.19%	2%
Number of e-commerce strategies developed	4,100	880	33%	21%	45	0.19%	1%
Number of enterprises implementing environmental audits and energy-saving/ resource efficiency systems	4,100	1,611	33%	39%	0	0.19%	0%
Number of gross jobs created	13,600	8,591	33%	63%	228	0.19%	2%
Number of net new jobs created	*	*	33%	*	*	0.19%	*
Gross value added in supported enterprises	*	*	33%	*	*	0.19%	*

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

Progress to Date in Implementing Priority 2 and Key Operational Issues

There has been reasonable interest in this Priority to date and **33%** of the available budget was allocated in the 1st application round to 19 projects. Amongst this allocation figure are included a new grant award for the Scottish Co-investment Fund which was awarded over £26 million. The potential discussions on the establishment of a JEREMIE fund in the LUPS area (which will be the subject of presentation to this Committee at its meeting on 27 May 2009) may also greatly assist the overall level of grant allocation. On the basis of these existing commitments some of the approved indicators are already being forecast for full achievement. However, the approved Priority target for the number of enterprises receiving financial support would appear to be unrealistically low for the range of expected business grant schemes and VCLFs under the scope of this Priority. This is of course dependent on all approved commitments being fully delivered in accordance with their applications and all original output/impact/result planning assumptions proving realistic.

2.8 PRIORITY 3: URBAN REGENERATION

Cumulative Summary of Financial Performance in Priority 3 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
1st Challenge Round	1	221,680	88,672	0	0
SDB	N/A	N/A	N/A	N/A	N/A
CPP	13	31,848,726	11,692,493	0	0
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Total	14	32,070,406	11,781,165	0	0

*The total approved ERDF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for Priority 3 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate – Commitments	Average Grant Rate – Payments
Total	40.00%	36.74%	0%

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	2,101**	13%	7,003%**	0	0%	0%
Number of ICT and e-learning facilities supported	35	95	13%	271%	0	0%	0%
Number of childcare and other community facilities supported	35	104	13%	297%	0	0%	0%
Number of transport hub projects supported	25	1	13%	4%	0	0%	0%

Area of business space created or modified (m ²)	7,500	38,630	13%	515%	0	0%	0%
Number of renewable energy and resource/energy-efficiency projects supported	90	4	13%	4%	0	0%	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
Increase in the number of individuals gaining employment through job brokerage schemes	650	10,327**	13%	1,589%**	0	0%	0%
Increase in the number of individuals gaining employment through supported e-learning/ ICT facilities	600	3,120	13%	520%	0	0%	0%
Increase in the number of individuals gaining employment through supported childcare/ community facilities	550	965	13%	175%	0	0%	0%
Number of enterprises supported	1,100	256	13%	23%	0	0%	0%
Number of social enterprises supported	350	725	13%	207%	0	0%	0%
Number of gross jobs created	4,500	813	13%	18%	0	0%	0%
Time saved per journey (journey time x freight/ passenger volume)	*	*	13%	*	*	0%	*
Increase in share of energy from renewable resources in supported areas	*	*	13%	*	*	0%	*
Number of net new jobs created	*	*	13%	*	*	0%	*

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

**This figure includes the forecast target figure for the Fife CPP which appears unrealistically high at 2062.

Progress to Date in Implementing Priority 3 and Key Operational Issues

There has been a relatively low level of interest in this Priority to date with only **13%** of the available budget being allocated in the 1st application round. Of the 14 projects supported to date, thirteen are from the approved Community Planning Partnerships and only one came through the challenge fund route. In addition to the IAB doing additional work with the partnership highlighting the scope of what can be funded through this Priority in order to stimulate interest, the current discussions taking place on the establishment of a JESSICA fund in the LUPS area will also greatly assist the level of grant allocation. It is however surprising that despite the small number of project commitments albeit at a lower average level of grant intervention, some of the approved indicators are already being forecast for full achievement. This is of course dependent on all approved commitments being fully delivered in accordance with their applications and all original output/impact/result planning assumptions proving realistic. However, the CPP proposals in respect of ERDF are highly focused on job brokerage, ICT and incubation facilities. The target for number of job brokerage initiatives supported is hugely over target due to an unrealistic figure from one CPP who appear to have misinterpreted the indicator and further discussions are required with the IAB.

2.9 PRIORITY 4: RURAL DEVELOPMENT

Cumulative Summary of Financial Performance in Priority 4 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date	Declared Expenditure to date	Grant paid to date
1st Challenge Round	4	8,275,221	3,019,278	393,180	141,966
SDB	N/A	N/A	N/A	N/A	N/A
CPP	N/A	N/A	N/A	N/A	N/A
Global Grants Body	0	0	0	0	0
Total	4	8,275,221	3,019,278	393,180	141,966

*The total approved ERDF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for Priority 4 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate - Commitments	Average Grant Rate – Payments
Total	40.00%	36.49%	36.11%

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	2,811	7%	201%	0	0.31%	0%
Number of e-learning/ childcare and other community facilities supported	40	0	7%	0%	0	0.31%	0%
Area of business space created or modified (m ²)	2,400	0%	7%	0%	0	0.31%	0%
Number of educational access projects supported	20	0%	7%	0%	0	0.31%	0%
Number of local transport projects supported	20	0%	7%	0%	0	0.31%	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	48	7%	5%	1	0.31%	0%
Number of enterprises introducing new supply and production processes	910	165	7%	18%	0	0.31%	0%
Number of enterprises benefiting from supported facilities	900	0%	7%	0%	0	0.31%	0%

Occupancy rates of business space by the end of the Programme	90%	0%	7%	0%	0	0.31%	0%
Number of gross jobs created	1,400	830	7%	59%	0	0.31%	0%
Number of enterprises accessing higher and further education research/ training resources	*	*	7%	*	*	0.31%	*
Time saved per journey (journey time x freight/ passenger volume)	*	*	7%	*	*	0.31%	*
Increase in gross value added per employee in supported enterprises	*	*	7%	*	*	0.31%	*
Number of net new jobs created	*	*	7%	*	*	0.31%	*
Increase in turnover in supported enterprises	*	*	7%	*	*	0.31%	*
Increase in gross value added in supported enterprises	*	*	7%	*	*	0.31%	*

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

Progress to Date in Implementing Priority 4 and Key Operational Issues

There has been a very low level of interest in this Priority to date with nearly **7%** of the available budget being allocated in the 1st application round to 4 projects. This can partly be explained by delays experienced in establishing the South of Scotland Global Grants body, meaning that up until this meeting no Priority 4 activity has yet been supported in this part of the Programme Area. However, there is clearly a need to do considerable additional work with the partnership highlighting the scope of what can be funded through this Priority in order to stimulate interest if it is to be fully delivered in line with the Operational Programme. In addition, the proposed changes to the eligible activity scope of the Priority currently being progressed with the Commission may also result in more projects being developed in future application rounds.

3. Implementation of the ESF Programme

- 3.1 The attached ESF parts of **Annex 1** aim to provide a range of financial information essential to monitoring the implementation of the ESF Programme. In summary, **Annex 1 (pages 3 and 4)** provides both a summary of the approved financial plan for the ESF Programme and details the level of project commitments made to date for each of the Programme Priorities in these different categories. This information is presented in terms of the whole Programme period. As a result, this part of **Annex 1** enables a comparison to be made between current project commitment levels and the maximum allocations in the approved financial plan for each Programme Priority. For ease of reference, the key information for the ESF Programme is summarised below.

Cumulative Summary of Financial Performance in ESF Programme to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
Shadow Round	49	17,899,346	7,768,168	12,031,267	4,675,028
1st Challenge Round	102	98,058,662	40,997,606	3,946,326	1,591,821
CPP	13	94,097,156	39,158,530	0	0
Technical Assistance	2	6,040,596	3,020,298		
Total	166	216,095,760	90,944,602	15,977,593	6,266,849

*The total approved ESF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for ESF Programme envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate – Commitments	Average Grant Rate – Payments
Total	45.11%	42.08%	39.22%

- 3.2 A review of progress to date in the ESF Programme indicates a good start has been made with forecast grant totalling over **38%** of the available programme allocation being made after the Shadow and 1st application rounds. The overall level of ESF grant committed to projects to date is **£90,944,602** and ESF grant payments totalling **£6,266,849** have been made to sponsors. An operational work priority in the ESF Programme in recent months has been to ensure that formal ESF grant approval letters are issued to sponsors to enable them to submit grant claims using the €UROSYS system. This exercise has progressed well and the levels of claims received by the IAB are increasing. However, the grant payment figure only relates to those claims which have physically been paid by the Scottish Government. The IAB is also liaising with sponsors to ensure that valid final claims are submitted for all shadow round projects. With regard to the forecast commitments already made in the Programme, the average ESF grant intervention rate being requested is below the approved average for the ESF Operational Programme and if continued should enable marginally more activity to be supported.
- 3.3 Notwithstanding the good start made to the ESF Programme overall, it should be noted that performance across all three operational priorities is mixed. Although there is a high commitment level in Priority 1 - Progressing Into Employment there are low commitment levels in Priority 2 - Progressing through Employment and Priority 3 - Improving Access to Lifelong Learning which will require further development work with sponsors in future application rounds to stimulate activity.

- 3.4 A full analysis of implementation to date in each ESF Priority is now provided in this report which seeks to assess forecast and actual performance against the approved financial and output/result/impact indicator targets. This data has been gathered from all currently approved applications in the respective Priority. **Please Note:** The current weakness in sterling means that the notional value of the ESF Programme which was agreed in EUROS has increased since the last meeting. However, it should be noted that this situation is not fixed and may change over the life of the Programme if the value of sterling appreciates against the EURO. For the purpose of this report and to enable realistic comparisons to be made, **an average exchange rate of 1 EURO = £0.883815 or £1 = 1.131458506 has been used.** This average exchange rate is based on actual ESF grant drawdowns received to date by the Scottish Government Certifying Authority and on the March 2009 exchange rate of 1 EURO = 0.8913 or £1 = 1.121956692. In addition, a further analysis has been undertaken of ESF commitments to date in order to identify participant beneficiaries in respect of gender, prime target groups, secondary target groups, age breakdown and ethnic breakdown. This is attached for information as **Annex 2.**
- 3.5 Although the data included in **Annex 2** has been sourced from submitted application and claim forms to the Shadow Round, 1st Application Round – Challenge Fund and the 1st Application Round – CPP, some discrepancies have been identified in the total participant figures for the different breakdown categories in the three operational priorities. Where this has occurred, ESEP staff have made minor but proportionate adjustments in the respective categories where the over-reporting/under-reporting has been identified. In addition, due to the extensive coverage of some CPP projects, the total number of participants on these schemes does not equate to the total identified figure in Priority 1 for the prime target groups.
- 3.6 **PRIORITY 1: PROGRESSING INTO EMPLOYMENT**

Cumulative Summary of Financial Performance in Priority 1 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
Shadow Round	49	17,899,346	7,768,168	12,031,267	4,675,028
1st Challenge Round	55	53,214,670	22,062,311	2,618,661	1,025,387
CPP	13	94,097,156	39,158,530	0	0
Total	117	165,211,172	68,989,009	14,649,928	5,700,415

*The total approved ESF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for Priority 1 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate - Commitments	Average Grant Rate – Payments
Total	45.00%	41.76%	38.91%

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 participants receiving support	26,600	109,385	64%	411%	17,132	5.32%	64%
Number of participants with multiple deprivations (i.e. those who qualify for 2 or more of the target groups)	13,300	76,080	64%	572%	368	5.32%	3%
Number of participants in the NEET group	2,700	21,192	64%	785%	16,706	5.32%	619%
Number of participants with disabilities or health difficulties	5,400	26,166	64%	485%	181	5.32%	3%

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 participants entering employment	8,800	31,887	64%	362%	1,933	5.32%	22%
Number of participants entering education or training	8,800	26,992	64%	307%	2,303	5.32%	26%
Number of participants gaining a partial (i.e. a completed unit towards a full qualification) or full qualification	13,200	48,306	64%	366%	7,182	5.32%	54%
Number of participants in employment six months after leaving	4,400	21,376	64%	486%	4	5.32%	0%
Number of participants who progress towards employment	*	*	64%	*	*	5.32%	*
Net number of participants entering employment	*	*	64%	*	*	5.32%	*

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

Progress to Date in Implementing Priority 1 and Key Operational Issues

There has been very strong interest in this Priority to date and over **64%** of the available budget was allocated in the Shadow and 1st application rounds to 117 projects. Amongst this allocation figure are thirteen CPP bids approved by Scottish Ministers which have been awarded over £39 million ESF grant. As a consequence of this high commitment level combined with the average ESF grant intervention rate for these commitments being below the approved 45% average for Priority 1 as detailed in the ESF Operational Programme, all of the approved indicators are already being forecast for full achievement. This is of course dependent on all approved commitments being fully delivered in accordance with their

applications. In particular, the delivery of the shadow round with its clear focus on supporting participants in the NEET groups has resulted in this indicator already being achieved.

The demand for this Priority will increase strongly as the unemployment figures rise, vacancy numbers fall, and individuals find it increasingly difficult to move into a job without retraining. More support will be needed for individuals, and also for employers still willing to take those who have been out of work for more than 6 months, and to take on apprentices whose skills in sectors such as construction will still be needed in the longer term even though they may be costly to maintain in the current market.

In reviewing the participant characteristics of the commitments to date in Priority 1 (**Annex 2 Page 1**), over 80% of the participants are targeted at addressing four prime target groups. These are the economically inactive, the unemployed, young people at risk of becoming NEET on leaving school and the long term unemployed. In contrast, amongst the Target groups identified in the Operational Programme for Priority 1 which do not appear as prime target groups in any approved applications to date include beneficiaries who;

- are non-EU migrant workers,
- are employed or self-employed
- have family or caring responsibilities,
- history of alcohol abuse,
- homeless,
- in full-time or part-time education,
- Part time worker,
- have a physical illness;
- are asylum seekers or refugees; and,
- are seasonal workers

It should be noted though that many of the above target groups do appear as secondary target groups.

Amongst the secondary target groups the three with the biggest participant numbers are multiple deprivations, lack of work experience and no qualifications. Of the total participants identified on the currently approved commitments, 56% are forecast to be male and 44% female. In addition, nearly 49% of the identified participants are in the three age categories below the age of 24 and nearly 86% of the participants are defined in ethnic terms as White (Scottish).

3.7 PRIORITY 2: PROGRESSING THROUGH EMPLOYMENT

Cumulative Summary of Financial Performance in Priority 2 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
Shadow Round	N/A	N/A	N/A	N/A	N/A
1st Challenge Round	31	29,477,465	12,550,667	992,868	421,428
CPP	N/A	N/A	N/A	N/A	N/A
Total	31	29,477,465	12,550,667	992,868	421,428

*The total approved ESF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for Priority 2 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate - Commitments	Average Grant Rate – Payments
Total	45.00%	42.58%	42.45%

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 participants receiving support	55,000	62,510	14%	114%	114	0.48%	0%
Number of male participants without basic skills	9,300	1,857	14%	20%	0	0.48%	0%
Number of female participants without basic skills	9,300	1,945	14%	21%	0	0.48%	0%
Number of male participants without level 2 skills	8,100	5,346	14%	66%	0	0.48%	0%
Number of female participants without level 2 skills	8,100	5,491	14%	68%	0	0.48%	0%
Number of male participants without level 3 skills	3,500	4,527	14%	129%	0	0.48%	0%
Number of female participants without level 3 skills	3,500	4,984	14%	142%	0	0.48%	0%
Number of women in projects addressing better gender balance	3,300	2,379	14%	72%	0	0.48%	0%
Number of men in projects addressing better gender balance	1,100	589	14%	54%	0	0.48%	0%

Number of participants in projects addressing entrepreneurial and managerial skills	4,400	7,940	14%	180%	0	0.48%	0%
Number of participants from social enterprises	4,400	755	14%	17%	0	0.48%	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 participants gaining partial (i.e. a unit within a full qualification) or full qualification	20,000	17,586	14%	88%	0	0.48%	0%
Number of male participants gaining basic skills	3,700	0**	14%	0%	0**	0.48%	0%
Number of female participants gaining basic skills	3,700	2,467	14%	67%	0	0.48%	0%
Number of male participants gaining level 2 skills	2,500	3,335	14%	133%	0	0.48%	0%
Number of female participants gaining level 2 skills	2,500	3,351	14%	134%	0	0.48%	0%
Number of male participants gaining level 3 or above skills	700	3,192	14%	456%	0	0.48%	0%
Number of female participants gaining level 3 or above skills	700	3,030	14%	433%	0	0.48%	0%
Number of women going into gender-imbalanced sectors	1,980	2,319	14%	117%	0	0.48%	0%
Number of men going into gender-imbalanced sectors	660	592	14%	90%	0	0.48%	0%
Number of entrepreneurs and new managers gaining a partial or full qualification	3,100	3,352	14%	108%	0	0.48%	0%
Number of participants from social enterprises completing a partial or full qualification	3,100	396	14%	13%	0	0.48%	0%
Number of participants who progress into more secure or better-skilled employment	*	*	14%	*	*	0.48%	*
Number of companies benefiting from improved skills training	*	*	14%	*	*	0.48%	*
Number of social enterprises benefiting from improved skills training	*	*	14%	*	*	0.48%	*

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

** An error occurred on the application form which meant that applicants were not asked to provide information on this indicator. Supplementary work will be required to establish this data.

Progress to Date in Implementing Priority 2 and Key Operational Issues

There has been a relatively low level of interest in this Priority to date and only **14%** of the available budget was allocated in the 1st application round to 31 projects. It is possible that the current economic turmoil, and individual concerns about the security of their current jobs is reducing their willingness in the short term to take the time to undergo training. It is important to note that the Operational Programme amendment approved by the Programme Monitoring Committee in 2008 was agreed by the Commission in December 2008, bringing “Employees requiring reskilling to enable them to remain in the workforce” provides opportunities for strategic projects to apply for ESF to help with large scale redundancies. Other strategic projects are likely to come forward under this Priority to encourage individuals and employers to bring forward skills training while order books are slack.

However, despite the relatively low number of project commitments albeit at a lower average level of grant intervention, some of the approved indicators are already being forecast for full achievement. This is of course dependent on all approved commitments being fully delivered in accordance with their applications and all original output/impact/result planning assumptions proving realistic.

In reviewing the participant characteristics of the commitments to date in Priority 2 (**Annex 2, Page 2**), over 93% of the participants are people in employment. Amongst the secondary target groups the three with the biggest participant numbers totalling over 53% are people with multiple deprivations, a lack of work experience and the ethnic minorities. Of the total participants identified on the currently approved commitments, 51% are forecast to be male and 49% female. In addition, over 63% of the identified participants are in the two age categories between 25 and 50. Over 72% of the participants are defined in ethnic terms as White (Scottish).

3.8 *PRIORITY 3: IMPROVING ACCESS TO LIFELONG LEARNING*

Cumulative Summary of Financial Performance in Priority 3 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
Shadow Round	N/A	N/A	N/A	N/A	N/A
1st Challenge Round	16	15,366,527	6,384,628	334,797	145,006
CPP	N/A	N/A	N/A	N/A	N/A
Total	16	15,366,527	6,384,628	334,797	145,006

*The total approved ESF grant figure and the number of projects approved to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation. Where this occurs, any under-spends are recycled back into the available pot for reallocation to other projects and the cumulative number and value of approvals will vary.

Comparison of Approved Average Grant Rate for Priority 3 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	Average Grant Rate – Operational Programme	Average Grant Rate - Commitments	Average Grant Rate – Payments
Total	45.00%	41.55%	43.31%

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 participants who are trainers	2,500	1,012	17%	40%	0	0.38%	0%
Number of projects supporting the development of new courses/materials or innovative approaches to learning	60	61	17%	102%	0	0.38%	0%
Number of local learning centres/ access points/ workplace initiatives supported	350	338	17%	97%	0	0.38%	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 trainers gaining a partial (i.e. a unit within a full qualification) or full qualification	1,600	638	17%	40%	0	0.38%	0%
Number of new courses/materials developed	800	558	17%	70%	0	0.38%	0%
Number of participants benefiting from support	9,000	37,105	17%	412%	0	0.38%	0%
Number of participants completing a partial or full qualification as a result of supported projects	*	*	17%	*	*	0.38%	*

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

Progress to Date in Implementing Priority 3 and Key Operational Issues

There has been a relatively low level of interest in this Priority to date and nearly **17%** of the available budget was allocated in the 1st application round to 16 projects. However, despite the relatively low number of project commitments albeit at a lower average level of grant intervention, some of the approved indicators are already being forecast for full achievement. In particular, the indicator “number of participants benefiting from support” is substantially higher than expected since the thrust of this Priority is in supporting lifelong learning initiatives such as the development of new training materials and the innovative use of ICT in training. The training of end beneficiaries is more properly the aim of Priorities 1 and 2. This is of course dependent on all approved commitments being fully delivered in accordance with their applications and all original output/impact/result planning assumptions proving realistic.

In reviewing the participant characteristics of the commitments to date in Priority 3 (**Annex 2, Page 3**), nearly 92% of the participants are targeted at people in employment. Amongst the secondary target groups the three with the biggest participant numbers totalling over 83% are those with multiple deprivations, people with literacy and numeracy problems and those with no qualifications. Of the total participants identified on the currently approved commitments, 52% are forecast to be male and 48% female. In addition, nearly 63% of the identified participants are in the two age categories between 25 and 50. Nearly 89% of the participants are defined in ethnic terms as White (Scottish).

4. Progress in Achieving N+2

- 4.1 Under the new Programmes the financial discipline of achieving spend to agreed deadlines remains a regulatory requirement with the risk of automatic de-commitment in the event of non compliance. Article 93 of Regulation 1083/2006 details the principle of automatic de-commitment. In essence, the Year 1 (2007) budget allocation (minus advance payments) requires to be paid out and declared to the Commission by 31 December of Year 3 (2009) and so on. The attached **Annex 3** outlines the indicative expenditure targets which have to be met by the end of each calendar year and provides a comparison with current commitments and payments.
- 4.2 Failure to meet the targets will result in a loss of grant so the implementation arrangements developed by the Scottish Government for the Programmes aim to resolve previous difficulties in meeting timeously the targets. The focus on delivery of a significant level of funding under certain priorities by CPPs, the Strategic Delivery and Global Grant bodies in particular, are expected to result in early expenditure. By ensuring only those projects which have all co-finance in place and are ready to proceed immediately are approved, will further aid the achievement of N+2. In addition, stronger up-front compliance should ensure that only projects that can meet individual expenditure targets should retain grant. The approval of the N+2 Action Plan at the meeting in March 2008 will also assist in this process.

5. Update on Scottish Enterprise SDB Project

- 5.1 This section of the report provides this Committee with an up-date on progress on the implementation of Scottish Enterprise's (SE's) Strategic Delivery Body (SDB) following the signing of the operating agreement between the Scottish Government and Scottish Enterprise on 18 November 2008. This report also seeks Committee endorsement for some amendments to the projects within the SDB portfolio, in-line with the flexibility enabled by the SDB to respond to changes in SE's operating context. Following the re-structure of SE in April 08 some projects within the SDB are no-longer proceeding. The most significant change requested follows the recent announcement that the Intermediary Technology Initiative's (ITIs) will be integrated with Scottish Enterprise from April 2009. Approval is therefore sought for the ITIs to become part of the SDB. Other minor changes requested are outlined within the report.
- 5.2 The SDB is comprised of a portfolio of projects and programmes aimed at two distinct constituencies:
- **Supporting Innovation in LUPS:** Aimed at innovation support direct to Scottish SMEs.
 - **Research and Commercialisations:** Aimed at supporting commercialisation of Scotland's key research strengths.

Each project within the portfolio is designed to enable maximum impact on the Scottish economy and leave a lasting legacy for the Structural Fund programme. This update will deal with each in turn and offers up-dates on the implementation progress of each project within the portfolio.

5.3 **Supporting Innovation in LUPS**

The portfolio is addressing market failure with regard to low levels of innovation within Scottish business. (BERD). It directly addresses Objective 1 of the Programme – to improve the competitiveness of the enterprise base through increased innovation, through the following objectives:

- stimulating demand for innovation by ensuring that companies are aware of the benefits;
- extending the culture of innovation by addressing the concerns of businesses e.g. risk, cost, time, route to market;
- building capacity within businesses to innovate and develop new products, processes and services;
- providing advice and grant support to SMEs to assist with implementation of innovation, and,
- providing a coordinated approach to innovation in key sectors or specific geographical locations.

The SDB is contributing to a coordinated programme of innovation support through SE, as follows:

1. Winning through Innovation

This initiative is designed to raise awareness of the need for and benefits of innovation to business and will stimulate interest in R&D and innovation activity in the SE client base through a programme of coordinated awareness raising seminars, sign posting and workshops. This is a development of a successful pilot project pioneered by SE in the West of Scotland and now extended across SE's area creating a major development in innovation support to stimulating innovation. It aims to:

- stimulate innovation by promoting benefits that can be achieved through increased innovation via high profile seminars featuring motivational speakers, prominent local and international exemplars in business. Networking opportunities will be available and signposting to public/private sector partner organisations invited to exhibit at the events;
- extend the innovation culture by addressing business concerns related to innovation i.e. risk, cost, time to market, development process, route to market, through a follow on series of basic workshops around the key topics of interest/concern; and,
- build capacity to innovate and develop new products, processes and services using follow on advanced and intensive workshops introducing key innovation techniques tools and approaches and examples of best practice.

Progress to date

Winning through Innovation has now been tendered through OJEU and the contract awarded in November 2008. The project is in full implementation and on target.

2. Innovation Support

The Winning through Innovation events aiming to stimulate demand are combined with an increase in the resources available to provide grant aid for the development of new products, processes and services within Scottish businesses. This is done by providing grant aid products including a range of R&D products within a new general R&D product and the Flexible Financial Product (FFP). Grant levels are determined by need and state aid rules.

Support is also provided from Innovation Advisors, a new role to Scottish Enterprise and key part of the innovation portfolio. This support enables Scottish SMEs to:

- build capacity to innovate and undertake new product, process and service development and to undertake and use market research; and,
- Convert intentions/ideas into potential products, services and process improvements. An increase in SE resources available to support innovation projects, under the Innovation Intervention Framework provides grant support for consultancy and project implementation including capacity building.

Progress to date

Innovation advisors are in place across Scottish Enterprise and a substantive number of R&D grants have been formally awarded to eligible SMEs. Spend is being incurred although there is a lag time between contract award and actual spend. There are also anecdotal concerns that the economic down turn may be jeopardising business match funding for grant aided projects. A full analysis on how or if the economic downturn is affecting the spend profile of these awards is currently underway and a full profile of spend on this programme will be available prior to submission of the first SDB claim expected in April 2009.

3. Encouraging Dynamic Global Entrepreneurs (EDGE)

EDGE is an innovative transnational business development programme which aims to enhance growth in Account Managed or Growth pipeline companies - the vast majority of which are based within Priority Industries (circa 80%). Projects, aimed at achieving & maximising company growth, are identified through e.g. Growing Business Reviews (GBR's) or other relevant dialogue with companies. Consultancy teams comprising Scottish and International undergraduates, together with 5th year School pupils, undertake projects to provide supported businesses with a consultancy report tailored to address identified business issues. Supporting partners include a number of Local Authorities in the West area as well as some International Universities. The programme has three elements:

- Phase 1 - positive aspects of enterprise in the economy and society delivered by Universities with input from external speakers and entrepreneurs;
- Fieldwork – Consultancy teams implement 2 company projects each. Access to a support network including Globalscots & Business Advisers; and,
- Convert Cultural Programme – Activities to assist integration and to promote Scotland e.g. Scottish Parliament visit.

Progress to date

This initiative commenced in April 2008 and the first cohort is now complete. The second intake is expected in April 2009.

A number of sectoral initiatives are designed to tackle innovation in an integrated manner across priority industry sectors defined by SE and in the programme document. Over the course of the 3 year programme it is anticipated that other sectoral initiatives will be brought forward for funding e.g. renewable energy & hydrogen fuel cells.

4. Wellness Innovation & Technology (WIT)

The mission of WIT is to build and grow a Scottish supply chain which is recognised as a leader in global wellness (preventative healthcare) market. The services of the project include: a wellness portal; market intelligence and analysis; technology support; facilitating interactions e.g. with corporate partners, through forums; product development support; developing linkages with academic institutions; developing corporate partnership agreements.

Progress to date

The programme has been tendered and the contract in place since 1st October 2008. Implementation is on target.

5. Digital Media Innovation (DMI) (working title). New SDB Project

DMI will provide a practical means for SME's in the Digital sector to find specific Market & Technology support and opportunities for collaboration and networking across SE's area which will strengthen the link between the research base and business innovation to address low levels of business R&D. Digital content and technology growth are key enablers in the Creative Industries sector and this programme will help support productivity gains and the potential for high growth. The programme will comprise:

- one to one sector specific advisory and intermediary services to encourage product development & facilitate relationships for companies developing products in the digital media sector;
- one-to-Many Networking Events sharing market/sector information and trends, business awareness, training and brokerage opportunities;
- company specific Market and Technology Research utilising the best sources of information;
- international partnering assistance in work with SDI & other international private sector organisations to develop activities, partnering events & showcase activities for Scotland's companies;
- commercial partnering assistance via introductory events & matching activities, company to company and company to academia; and,
- developing access routes to test and demonstration facilities to support product development for SME's.

Progress to date

This initiative will commence in September 2009.

6. University to SME Technology Transfer in Opto & Microelectronics (TTOM). New SDB Project

This market led project builds upon a previous successful, highly regarded project implemented by Scottish Enterprise with support from the Scottish Government SEEKIT project and ERDF. The project aims to encourage market-focused technology transfer between SMEs and Universities and will encourage SME innovation via a competitive quarterly award scheme which funds technology feasibility studies for SMEs, delivered by

academic experts. This new project seeks to expand the original technology themes and extend the project to encompass emerging technologies in Medical Devices, Energy, ICT, Nanotechnologies as well as the original Opto & Microelectronics themes and will be delivered across the Scottish Enterprise area between April 09 and March 2012. Partners will include Scottish Enterprise, Scottish Government SEEKIT programme. In the future, it is envisaged that Highlands and Islands Enterprise and a range of trade support bodies may participate in the project.

Progress to date

This initiative will commence in April 2009.

A number of area/geographical initiatives are designed to address innovation issues in specific areas by identifying needs, piloting new types of projects, and adopting an integrated approach to service delivery. Two contrasting initiatives are included in the initial SDB bid.

7. South of Scotland Innovation System Initiative

This project is aimed at developing the innovation system in the South of Scotland by addressing identified weaknesses in rural areas, and stimulating demand for innovation and R&D, through a series of pilot projects, including events and networks increasing linkages between local companies and universities, 2 locally based knowledge-transfer advisors, and an "Innovation in our Youth" group initiative.

Progress to date

This initiative was contracted in Autumn 2008 and implementation is underway and on target.

8. Glasgow Innovation Mentoring

This project provides high quality mentoring services to nascent, new and existing high technology based SMEs in Glasgow, including spin outs from higher education. Mentoring support is flexible and sensitive to the needs of individual SMEs, covering a wide range of business areas, but focusing on developing the competencies of management teams through skills transfer.

Progress to date

The implementation of this initiative is on target.

5.4 Research and Commercialisation in LUPS

1. Intermediate Technology Institute (ITI)

The Intermediate Technology Institute (ITI) was officially launched in September 2003 by SE and the then Scottish Executive, to develop and commercialise valuable technology-based intellectual assets to help stimulate and benefit the Scottish economy. ITI Scotland comprises ITI Energy, ITI Life Sciences and ITI Techmedia (digital media and communications) - areas where Scotland has strong economic and business potential. The model was devised to tackle failures in the innovation system in Scotland, with two main objectives:

- to create high growth, high value technology companies in key future markets by maximising the potential of Scotland's unique academic & company strengths; and,
- to provide broad ranging and long term local (systemic) and international (attractiveness) benefits.

Scottish SMEs form a vital part and are the main focus for exploitation of the IP created in ITI's RTD projects. This project will help to achieve Priority 1 objectives by:

- undertaking market focused collaborative RTD projects developing key technologies in Energy, Life Sciences and Techmedia sectors. The project will have a wide impact on Scottish sectors and industries, linking enterprise and academic research in product, service and process innovation;
- encouraging enterprises with limited experience in working with research partners to participate in the collaborative RTD projects; and,
- by funding new sustainable RTD projects enabling the transfer of key research and innovation knowledge into Scottish SMEs.

This will lead to increasing RTD and innovation in the economy, intensified links between research and enterprise, improving the ability of the enterprise community to use/commercialise research, and enhance the capacity of enterprises to innovate. The ITIs have a pipeline of RTD projects planned to support the following types of activity:

- Foresighting of key technologies and markets to identify new market-focused RTD project opportunities in key market areas including:
 - Robotics
 - Next generation computing
 - Synthetic Biology
 - Non- and Minimally-Invasive Technologies
 - Alternative Fuel Vectors
 - Electric Vehicles & Hybrid Electric Vehicles
 - Wind Turbine Blades
- The extension of existing and support of new RTD projects from areas such as those below:
 - Explosives Detection
 - Video Analytics
 - Body Movement Tracking
 - Wound Care
 - Ocular Molecular Imaging
 - Ubiquitin Proteasome System
 - Synthetic Biology
 - New methods of Drug Delivery
 - Investigation of new models for gut health
 - Resonance Enhanced Drilling
 - Offshore renewables
 - Hybrid Electric Vehicles
 - Emerging Fuels
 - Microgeneration

Approval is sought to bring the ITIs into the SDB in place of the Mega Watt initiative which has dropped from the SDB due to changes in SE priorities following the restructure in April 2008. The ITI's project will commence in April 2009 for a two year period. Any support beyond this period will require a new challenge fund application.

2. Proof of Concept Programme (PoCP)

In 1999 the Knowledge Economy Task Force (the Scottish Executive, Universities Scotland, Scottish Funding council) established that there was a pre-seed funding gap inhibiting the commercialisation of academic research and from this, their recommendation was to establish PoCP to fund projects to take commercially focused research from lab to the market place. From this recommendation PoCP was formed in 1999 as a three-year £11 fund which increased in value to £49m (including £10m ERDF) in 2005 through Scottish Executive and SE approvals. Approval was sought from SE Board in 2007 to commit an additional £30m to bring the total value to £79m.

PoCP provides grants which are awarded on a competitive basis following application calls. Proposals are rigorously assessed by external business experts and SE staff to identify those with the strongest commercial prospects. Once awarded, projects are continually supported and monitored throughout their duration. Financial drawdown is gated by the attainment of technical and commercialisation milestones agreed before a funding offer is made. Overall governance of PoCP includes a working group from Universities Scotland and SE that meets to provide a focus for two-way dialogue on the ongoing development of the Programme. The eventual outcomes from the Programme are aimed towards HEIs being able to: create spinouts; sign licensing agreements; create new highly-skilled jobs; change entrepreneurial and commercialisation attitude.

Progress to date

The implementation of this initiative is fully underway and on target.

5.5 Projects removed from the SDB

The projects removed from the SDB bid are Mega Watt due to changes in SE's priorities following restructure and Project Demon due to delay in development.

5.6 Projects added to the SDB

The projects added to the SDB bid are:

- Intermediary Technology Initiative (ITI);
- Digital Media Innovation (DMI) (working title); and
- University to SME Technology Transfer in Opto & Microelectronics (TTOM)

5.7 Compliance

SE has purchased the development of an on-line data capture system to monitor spend, outputs and results for all SDB projects, similar to that used by UHI. This will be live for the first claim expected in April 2009. Scottish Enterprise is also developing an internal monitoring framework in conjunction with the Structural Funds Division and the IAB. This is expected to be approved prior to the submission of the first claim.

A full report against the operating agreement template will be available for the May meeting of this Committee.

6. Recommendations

6.1 The Committee is invited to:

- 6.1.1 Note the position in implementing the ERDF Programme to date as detailed in Section 2 of this report and attached **Annex 1**;
- 6.1.2 Note the position in implementing the ESF Programme to date as detailed in Section 3 of this report and attached **Annex 1**;
- 6.1.3 Note the participant analysis in the ESF Programme to date as detailed in attached **Annex 2**;
- 6.1.4 agree the final list of activities to be included in the SDB bids being undertaken by Scottish Enterprise as outlined in Section 5; and
- 6.1.5 Note the N+2 position as detailed in attached **Annex 3**.

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