



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

**CONSIDERATION OF ERDF ADVISORY GROUP REPORTS
AND PROJECT RECOMMENDATIONS
REPORT BY THE SCOTTISH GOVERNMENT**

1. Purpose

- 1.1** To advise the Committee of the recommendations from the four Advisory Groups arising from the appraisal of the Second Round of ERDF project submissions in the LUPS ERDF Programme 2007-13. This report also seeks the endorsement of this Committee with regard to a number of key issues that have influenced the Advisory Group process in the current round and to highlight implications of current thinking for subsequent bidding rounds.

2. Background

- 2.1** One of the significant changes to the business processes for the new Programmes was a two-stage application process. The First Stage was a formal expression of interest in applying for European Structural Funds, where applicants supply a brief summary description and outline expenditure figures and anticipated outcomes for the project. The aim for this stage of the process was to filter out those project applications that do not meet the eligibility criteria and flag up any potential for collaborative bids.
- 2.2** The Second Stage allowed a full application to be submitted by those projects that have successfully passed the eligibility criteria under the First Stage.
- 2.3** The deadline for the submission of Second Stage applications for the second application round to the 2007-13 Programmes concluded on 10 October 2008. The following requests for ERDF funding were received under the second stage of the process:

2.4 Summary of ERDF Bids received in the 2nd round:

Priority	No of applications Received (1 st stage)	No of applications Received (2 nd stage)	ERDF Grant Requested at 2 nd stage (£)
Priority 1: Research and Innovation	47	31	37,932,599
Priority 2: Enterprise Growth	28	20	46,299,115
Priority 3: Urban Regeneration	26	13	13,285,488
Priority 4: Rural Development – Challenge Round	11	7	6,763,975
Priority 4: Rural Development – Global Grants Body	10	10	4,658,512
Total	122	81	108,939,689

2.5 The reports of the four Advisory Groups are detailed below at Section 4 .The lists of project recommendations for each Priority and the PMC project summary for each submitted application are attached as Annexes **1A and 1B** respectively.

2.6 At section 5 of this paper there is a financial summary for each ERDF Priority of the financial implications in ERDF grant terms of agreeing the various project recommendations.

2.7 Overall, and subject to this Committee agreeing to the recommendations of the four Advisory Groups, up to **£71,350,667** ERDF grant will be allocated in this current round.

3. Advisory Group Process

3.1 Full applications were subject to technical/eligibility checks by the IAB and appraisal by the Managing Authority, the IAB Programme Mangers, Advisory Group members and Scottish Government policy experts. The policy experts provided input in particular into the fit with the strategic policies of the Scottish Government. External stakeholder members of the Advisory Groups were appointed by the Scottish Government as the Managing Authority.

3.2 The respective scores of the second stage application by the 'Virtual' Advisory Group members and the IAB Programme Managers, Managing Authority and Scottish Government policy experts were collated by the IAB and the previously agreed weighting factor applied. An average overall score was then calculated and checks were undertaken to ensure that any anomalous scores were justified and did not

unreasonably affect the final score and ranking. Depending upon the range of average overall scores and the numbers of overall projects, 'Standing Advisory Groups' were then requested to consider a number of projects which scored above the notional quality threshold (33) and a number below the quality threshold. This afforded the opportunity to test and validate the initial scores in an open and frank debate where Standing Advisory Group members had been selected on the basis that they had no conflict of interest in respect of the projects under consideration.

4. Advisory Group Reports

4.1 ERDF Priority 1 Advisory Group Report

4.1.1 A summary of the second stage applications submitted for assessment and scoring by the Advisory Group in the second round is broken down as follows:

- A total of 31 second stage applications were submitted;
- 31 applications were sent to Virtual Advisory Group members for scoring;
- The Standing Advisory Group discussed 10 applications;
- 24 applications are recommended for approval (subject to conditions); 7 applications are not recommended;
- A total of **£24,268,528** ERDF grant is recommended for approval (as detailed in attached Annex 1A).

4.1.2 The Standing Advisory Group met on one occasion in order to assess project applications. The Group was informed that the highest score for the priority was 44.38 with the lowest score being 28.44. The average score was 36.62. The quality threshold had been set at 33.00. Members were asked to appraise those projects that scored between 36.29 and 34.21. The Chair informed the Group that anything above this range is recommended for approval, and anything below the range is rejected. The number of projects discussed by the Standing Advisory Group totalled ten.

Ten applications were appraised by the Standing Advisory Group to agree the projects that should be supported. As a result of the discussions it was agreed that seven of the projects should be supported. However, for a number of the projects the Group requested that further information be provided by the lead applicant prior to approval to ensure compliance and strategic fit with ERDF Priority 1. Three applications were not recommended for approval due to issues surrounding duplication of service provision and poor value for money.

4.1.3 In addition nine applications were brought to the Standing Advisory Group as the grant requested is in excess of £1m. Due to the budget constraints for the LUPS 2007-2013 Programme, members were asked to consider the large projects and recommend whether the application represented good value for money. Seven

of the large scale projects were recommended for approval:

LUPS/ERDF/2008/2/1/0477 Scottish Enterprise Translational Medicine Research Collaboration Programme

LUPS/ERDF/2008/2/1/0429 Dundee University Innovation Pipeline for Translational Science

LUPS/ERDF/2008/2/1/0450 Glasgow Opportunities John Logie Baird Innovation Village Capital

LUPS/ERDF/2008/2/1/0388 Heriot-Watt University HWUKT

LUPS/ERDF/2008/2/1/0366 The Scottish Government Scottish European Green Energy Centre 2

LUPS/ERDF/2008/2/1/0375 University of Strathclyde SIPBS Knowledge Exchange

LUPS/ERDF/2008/2/1/0438 Roslin Institute Roslin Stem Cell Partnership

The Group concluded that they could not recommend one large scale project for approval:

LUPS/ERDF/2008/2/1/0424 Dundee University CPGP – Centre for Population Genetics and Pharmacogenomics

The application was deferred in the First Application Round. It was felt that the original proposal was too research-focussed, and it was also recognised that other institutes are undertaking research work in this area. A good attempt was made by the applicant to resolve these issues and the application scored highly. However, the Group still felt that the primary issue over activity not having a strong enough focus on knowledge transfer and commercialisation still remained and that it created the opportunity for other primarily research-led applications to seek ERDF support.

It was recognised that there could be potential for ERDF to support elements of the activity, but it is likely that it would only form a small component of the current application, potentially linked to the limited amount of Scottish Enterprise match-funding provided. There were also issues over value for money, with the number of jobs created very low for the capital investment proposed. Also, it is likely that many of these jobs would be achieved a number of years after the installation of equipment. It was also not clear how the associated revenue activities, that would realise the outcomes, would be funded and undertaken.

In addition, the Group could not make a final decision on whether or not to recommend one large scale application for approval:

LUPS/ERDF/2008/2/1/0333 ITI Scotland Ltd ITI Scotland 2009-2011 ERDF Project

The efforts and successes of the ITIs in attracting inward investment into

Scotland were fully recognised. However, it was difficult to see the true additionality and added value the project would bring because those key target sectors seeking ERDF support within the application had been grouped along with the core activities of ITI. Separate applications dedicated to supporting those particular sectors would have demonstrated more clearly the strategic value of these activities and ensured that the grant intervention rate requested was appropriate.

The Group felt that the way the proposal had been presented would have been better placed alongside the Scottish Enterprise SDB bids rather than within the Challenge Fund. It was therefore agreed that the PMC should make the final decision on the most appropriate fit for the ITI application within ERDF Priority 1.

- 4.1.4** During their discussions the Group confirmed that a level of ‘over-Programming’ was acceptable, because historically ERDF Programmes have experienced ‘wash-back’ of grant from supported projects. However, it was also highlighted that a re-strengthening of the pound would result in a reversal of the situation, and as a result limited or no funds would be available for future application rounds under Priority 1.

If there were little funds available in the Third Round, the group considered what they thought the best approach and use of the remaining ERDF grant would be. It was felt that projects which presented real potential for innovation and focussed on direct commercialisation, engaging with business and the demand side of knowledge exchange were likely to offer the best return. Similarly, evidence of true collaboration and partnership working within sectors would also be advantageous.

It was also suggested that the Priority Industry Teams within Scottish Enterprise could provide input into the focus for applications in the future to ensure that proposals received are strategically aligned with national priorities. This could assist in developing particular ‘streams’ within a call, similar to the way a number of Brussels-based grant funds operate such as FP7.

4.2 ERDF Priority 2 Advisory Group Report

- 4.2.1** A summary of the second stage applications submitted for assessment and scoring by the Advisory Group in the second round is broken down as follows:

- A total of 20 second stage applications were submitted;
- 20 applications were sent to Virtual Advisory Group members for scoring;
- The Standing Advisory Group discussed 8 applications;
- 10 applications are recommended for approval (subject to conditions); 10 applications are not recommended;
- A total of **£34,481,209** ERDF grant is recommended for approval (as detailed

in attached Annex 1A).

- 4.2.2** The Standing Advisory Group met on one occasion in order to assess project applications. The Group was informed that the highest score for the priority was 44.94 with the lowest score being 31.4. The average score is 36.62. The quality threshold has been set at 33. Members have been asked to appraise those projects that scored between 35.44 and 31.75. The Chair informed the Group that anything above this range is recommended for approval, and anything below the range is rejected. In addition to discussing the applications with 'middle-ranking' scores, a high scoring application was highlighted by SG Policy officials as requiring further discussion by the Standing Advisory Group. This application is LUPS/ERDF/2008/2/2/0460 – Glasgow Opportunities – Harnessing Creative Potential. The number of projects to be discussed totalled eight.
- 4.2.3** Eight applications were appraised by the Standing Advisory Group to agree the projects that should be supported. As a result of the discussions it was agreed that none of the projects should be recommended for funding. This was mainly due to the fact that many of the applications submitted did not represent a good alignment with Scottish Government Policy and/or did not present a good justification in terms of added value/business benefits.
- 4.2.4** In addition three applications were brought to the Standing Advisory Group as the grant requested is in excess of £1m. Due to the budget constraints for the LUPS 2007-2013 Programme, members were asked to consider the large projects and recommend whether the application represented good value for money.

The Group concluded that the following applications should be recommended for support:

LUPS/ERDF/2008/2/2/0408 Scottish Enterprise Scottish Venture Fund

Members concluded that this was a good project which represented a good fit with both EU and Scottish Government strategy. The Fund has been in existence for 2 years and has a good investment track record. There is also evidence that the partnership is working well and that there are high levels of additionality and innovation. The Group had some concerns regarding the East/West balance of deal flow due to the lower number of deals coming forward to the Scottish Co-investment Fund I in the West. However, the group was satisfied that the infrastructure is in place to ensure that there is sufficient deal flow in the West of Scotland.

LUPS/ERDF/2008/2/2/0501 West of Scotland Loan Fund Ltd West of Scotland Loan Fund (Gap Funding for SMEs)

The Group agreed that this was a good project with a good track record. Furthermore there is evidence that there is still a gap in the market for this level of loan funding. However, Group members were keen that this funding should also be available in the East of Scotland. The project sponsor had indicated in the application that early discussions were taking place with Local Authorities in the East of Scotland re. potentially rolling the loan Fund out to also cover the East. However, Group members were informed that this was now not a possibility as only one Local Authority had signed up. Group members agreed that COSLA should be consulted to ensure that an appropriate mechanism (based on the West of Scotland Loan Fund model) should be replicated in the East of Scotland.

LUPS/ERDF/2008/2/2/0324 Scottish Enterprise Business Efficiency

This application had been deferred in the first round on the basis that it was a weak application which did not do justice to a project with the potential for having a strategic impact on the Programme. Group members agreed that, although there is evidence of a strong fit with Scottish Government policy, the application was vague in terms of the target market. There was also a strong recommendation that Scottish Enterprise should ensure that linkages are made with Local Authorities to ensure that good practice can be shared. It was agreed that this should be a condition of grant.

- 4.2.5** Group members were advised that one option currently being considered for the remaining funds in ERDF P2 is to allocate these through a 'commissioning process'. This may involve a strategic application to be considered out-with the scheduled application rounds.

4.3 ERDF Priority 3 Advisory Group Report

- 4.3.1** A summary of the second stage applications submitted for assessment and scoring by the Advisory Group in the second round is broken down as follows:

- A total of 13 second stage applications were submitted;
- 11 applications were sent to Virtual Advisory Group members for scoring. 1 application was rejected on the basis of eligibility and 1 application was withdrawn by the Project Sponsor;
- The Standing Advisory Group discussed 7 applications;
- 2 applications are recommended for approval (subject to conditions); 8 applications are not recommended; 1 application has been deferred and a recommendation will be agreed by written procedure;
- A total of **£1,586,394** ERDF grant is recommended for approval (as detailed in attached Annex 1A).

- 4.3.2** The Standing Advisory Group met on one occasion in order to assess project applications. The highest score for the priority was 41.38 with the lowest score

being 28.31. The average score is 33.55. The quality threshold has been set at 33. Members have been asked then to appraise those projects that scored between 36.79 and 30.92. The Chair informed the Group that anything above this range is recommended for approval, and anything below the range is rejected. The number of projects to be discussed totalled seven.

- 4.3.3** Before embarking on the application discussion, Advisory Group members considered the eligibility of activity under ERDF P3. Within the Operational Programme, the relevant scope points could be interpreted in a restrictive manner with regard to the creation of business/workspace as it appears to be written in such a way as to preclude the refurbishment of derelict/empty buildings. Advisory Group members agreed that in the current economic climate this restrictive interpretation of eligible activity was not practical. However, they also agreed that where practical applications must demonstrate the employment of 'green principles' in any refurbishment activity whilst recognising that in some situations (particularly in the case of listed buildings) this may not be cost effective.
- 4.3.4** Seven applications were appraised by the Standing Advisory Group to agree the projects that should be supported. As a result of the discussions it was agreed that none of the projects should be recommended for funding. This was mainly due to the fact that many of the applications submitted did not represent a good fit with the scope of ERDF P3 eligible activity and did not provide a good business case for the proposed facility.
- 4.3.5** On reviewing the scores for applications it became apparent that one application had only been scored by one external Advisory Group member. The application in question is: LUPS/ERDF/2008/2/3/0348 Coatbridge College Coatbridge College Campus Enhancement. The original total score for this application was 26 and out with the range of scores to be discussed by the Standing Advisory Group. Due to the tight timescale between the deadline for the receipt of scores and the Standing Advisory Group meetings it was not possible to ensure that a revised score could be achieved for this project. However, subsequent to the Standing Advisory Group meeting the IAB re-sent the project for scoring. Once the additional scores had been received the total score for the project rose to 32.15. Whilst still below the quality threshold of 33, this project should have been discussed at the Standing Advisory Group meeting. In order to ensure consistency of approach it has been agreed that a recommendation for this project should be agreed through an Advisory Group written procedure.
- 4.3.6** In addition one application was brought to the Standing Advisory Group as the grant requested is in excess of £1m. Due to the budget constraints for the LUPS 2007-2013 Programme, members were asked to consider the large projects and recommend whether the application represented good value for money.

The Group concluded that the following applications should be recommended for

support:

LUPS/ERDF/2008/2/3/0313 Maryhill Burgh Halls Maryhill Burgh Halls Trust

Members discussed this project and agreed that this was a good project and felt that the revised application had demonstrated the capacity of the project sponsor to manage a project of this scale. The Group also felt that this project should be highlighted as an example of good practice due to the low overall level of intervention rate requested from ERDF.

4.4 ERDF Priority 4 Advisory Group Report (Including GGB Applications)

4.4.1 ERDF P4

4.4.1.1A summary of the second stage applications submitted for assessment and scoring by the Advisory Group in the second round is broken down as follows:

- A total of 7 second stage applications were submitted;
- 7 applications were sent to Virtual Advisory Group members for scoring;
- The Standing Advisory Group discussed 4 applications;
- All 7 applications are recommended for approval (subject to conditions);
- A total of **£6,449,024** ERDF grant is recommended for approval (as detailed in attached Annex 1A).

4.4.1.2The Standing Advisory Group met on one occasion in order to assess project applications. The highest score for the priority was 44.40 with the lowest score being 32.00. The average score was 38.29. The quality threshold has been set at 32.00. Therefore there were no applications below the quality threshold. Members were asked to appraise four projects that scored between 37.10 and 32.00.

4.4.1.3Four applications were appraised by the Standing Advisory Group to agree the projects that should be supported. As a result of the discussions it was agreed that all 4 projects should be supported.

However, for the applications LUPS/ERDF/2008/2/4/0417 and LUPS/ERDF/2008/2/4/0452 the Group agreed initial funding of one year only. The applicants would be given the opportunity to apply for grant for the remaining years of their projects in the next application round if they could provide evidence of satisfactory outcomes.

The Group agreed that standard of the application for LUPS/ERDF/2008/2/4/0378 was poor. Whilst generally supportive of the aims of the project, it was felt that ERDF support could only be given if the lead

applicant agreed to submit a revised application that addressed all the quality issues that had been raised.

4.4.1.4In addition three applications were brought to the Standing Advisory Group as the grant requested is in excess of £1m. Due to the budget constraints for the LUPS 2007-2013 Programme, members were asked to consider the large projects and recommend whether the application represented good value for money.

Following discussion the Advisory Group recommended that the following large scale projects should be supported as all represented good value for money:

LUPS/ERDF/2008/2/4/0340 The Moray Council Rural Action Plan for Moray

LUPS/ERDF/2008/2/4/0256 Moray College e-Health training and education unit for Moray

LUPS/ERDF/2008/2/4/0377 Scottish Enterprise Energetica Business Site Development

4.4.2 ERDF P4 – South of Scotland Global Grants Body (GGB)

4.4.2.1A summary of the second stage applications submitted for assessment and scoring by the Advisory Group in the second round is broken down as follows:

- A total of 10 second stage applications were submitted;
- 10 applications were sent to Virtual Advisory Group members for scoring;
- The Standing Advisory Group discussed all 10 applications;
- 9 applications are recommended for approval (subject to conditions); 1 application is not recommended for approval;
- A total of **£4,565,512** ERDF grant is recommended for approval (as detailed in attached Annex 1A).

4.4.2.2The South of Scotland GGB Standing Advisory Group met on one occasion in order to assess project applications. The highest score for the priority was 42.42 with the lowest score being 32.88. The average score was 38.21. Due to the initial financial resource allocation to the South of Scotland Global Grants being limited to £19m the Standing Advisory Group discussed all ten applications.

4.4.2.3Ten applications were appraised by the Standing Advisory Group to agree the projects that should be supported. As a result of the discussions it was agreed that nine of the projects should be recommended for funding.

4.4.2.4During the discussions it was noted that some projects had a parallel project

application in the mainstream LUPS ERDF P4. In these cases care was taken to ensure consistency with the recommendations from the ERDF P4 Standing Advisory Group.

4.4.2.5 Only one application was not recommended for approval on the basis that the project application was weak in a number of fundamental sections. If the application was sufficiently strengthened this could be supported in a future round.

4.4.2.6 Members also noted the PMC report on the Exceptional Project Procedure for 2007-2013 Programmes. Members were very keen to put in place mechanisms by which the Programme could support time critical projects of strategic importance, particularly those developed in response to the global economic crisis. Members noted that some flexibility had been built into the process by the PMC for time critical projects of strategic importance. Members agreed that any such projects would warrant an Advisory Group meeting and that a quorum for any meeting would be three members.

5. Implications of Approving Advisory Group Recommendations

5.1 The implications of approving the Advisory Group recommendations are summarised in the table below:

Priority	Total Grant Allocation* (£)	Approved Grant Commitments to date (£)	Available Allocation for 2 nd Round (£)	Value of 2 nd round bids recommended for approval (£)	Remaining Balance after 2 nd Round (£)
Priority 1: Research and Innovation	81,474,044	43,800,401	37,673,643	24,268,528	13,405,115
Priority 2: Enterprise Growth	108,077,814	35,994,495	72,083,319	34,481,209	37,602,110
Priority 3: Urban Regeneration	89,787,722	11,781,165	78,006,557	1,586,394	76,420,163
Priority 4: Rural Development	45,226,409	3,019,278	42,207,131	11,014,536	31,192,595
Priority 5: Technical Assistance	7,981,131	4,205,982	3,775,149	0	3,775,149
Total	332,547,120	98,801,321	233,745,799	71,350,667	162,395,132

*An average exchange rate of 1 EURO = £0.884533 or £1 = 1.13054007 has been used. This is based on actual ERDF grant drawdowns received to date and the March 2009 exchange rate.

6. Recommendations

6.1 The Committee is invited to:

- 6.1.1 agree in principle the recommendations for this current round of ERDF applications, on the basis of the quality thresholds proposed, as detailed in attached **Annexes 1A and 1B**. In addition, the Committee is asked to make a recommendation with regard to LUPS/ERDF/2008/2/1/0333 as detailed at section 4 above;
- 6.1.2 note and agree the Advisory Group reports summarised at section 4 above;
- 6.1.3 note the level of commitments for each Programme Priority as detailed at section 5.1 above;
- 6.1.4 acknowledge the considerable work carried out by the respective Advisory Groups in appraising these project applications.

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