

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

**NOTE OF MEETING HELD ON
WEDNESDAY 18 MARCH 2009,
AT THE HILTON TREETOPS HOTEL, ABERDEEN**

Present:

Dr John Rigg	Scottish Government (Convener)
Liz Connolly	Scottish Enterprise
Councillor Kate Dean	Aberdeen City Council
Professor Campbell Gemmell	SEPA
David Grahame	LINC Scotland
Councillor Alasdair Hutton	Scottish Borders Council
Graeme Hyslop	Langside College
Dharmendra Khanani	Big Lottery Fund
Dame Barbara Kelly	Southern Uplands Partnership
Danny Logue	SDS
Donna Mackinnon	SCVO
Councillor David O'Neill	North Ayrshire Council

Apologies:

Riona Bell	Scottish Funding Council
Councillor David Berry	East Lothian Council
Alan Boyle	West Fife Enterprises Ltd
David Ford	Scottish Government
Dr David George McBeth	University of Strathclyde
Charlie McMillan	Scottish Association of Mental Health
Grahame Smith	Scottish Trades Union Council

In Attendance:

Koen Delanghe	European Commission, DG Regio
Marc Vermyle	European Commission, DG Employ
Mabel Hildebrand	Scottish Government
Nigel Lindsay	Scottish Government
Billy McLaren	Scottish Government
David Souter	Scottish Government
Gordon McLaren	ESEP Ltd
Susan Napier	ESEP Ltd (Minutes)
Nigel Thomas	ESEP Ltd
Susan Tamburrini	ESEP Ltd

Observing:

Frank Lee	EIB
Alec Fraser	Fraser Associates
Peter Smith	Fraser Associates

1. Introduction

The Convener welcomed everyone to the meeting, and introduced Alec Fraser and Peter Smith from Fraser Associates, and Frank Lee from the EIB who would be providing presentations at item 5 (Update on the Scottish Economy) and item 9 (Progress on a Proposed JESSICA Fund) respectively. Round-table introductions were invited.

2. Apologies

Apologies were received from Riona Bell (Scottish Funding Council), Councillor David Berry (East Lothian Council), Alan Boyle (West Fife Enterprises), David Ford (Scottish Government), David McBeth (University of Strathclyde), Charlie McMillan (Scottish Association of Mental Health) and Grahame Smith (STUC).

3. Minute of Meeting held on 29 October 2008

The minutes of the previous meeting on 29 October 2008 were approved.

4. Matters Arising

The Committee agreed that the note of the previous meeting was factually correct. The following points were raised:

4.1 Communications Plan (Item 4.1 from 29/10/08 Note)

A copy of the 'European Structural Funds Media Coverage Evaluation' report carried out by the BIG Partnership was tabled. Scottish Government advised that the report had been well received by Ministers Jim Mather and Fiona Hyslop. A media campaign had been supported by a number of local Councils, and various stories had been drip-fed to the press. It was anticipated that this campaign would be repeated in future to ensure compliance with regulatory requirements.

4.2 An Action Plan to Strengthen the Commission's Supervisory Role Under Shared Management of Structural Actions (Item 4.3 from 29/10/08 Note)

Committee Members requested a progress update. The Convener reported that the latest draft of the Management and Control System would be submitted to Scottish Government internal audit this week. Once this has been agreed by Scottish Government Internal Audit the report will be sent on to the Commission for a decision. Feedback had indicated that no other UK Management and Control Systems had been approved to date. The IAB advised that a paper updating members on progress with the Management and Control System and making specific reference to the implications for project sponsors would be submitted to the May meeting.

4.3 Proposed Changes to the ESF and ERDF Operational Programmes (Item 4.4 from 29/10/08 Note)

In response to a point regarding an increase in resources to ESF Priority 1, the Committee were advised that these changes did not relate to any proposals for virement, but to the scope for eligibility. However, future decisions on virement were not ruled out.

4.4 Exceptional Project Procedure for 2007-2013 Programmes (Item 4.6 from 29/10/08 Note)

The Convener highlighted the significance of this process in relation to the current economic downturn. This process would be invoked at the extra-ordinary meeting which is to be held in May 2009.

4.5 Committee Representation (Item 4.7 from 29/10/09 Note)

The Convener advised that senior officials from Skills Development Scotland had accepted places on the LUPS and HIPP Programme Monitoring Committees, including Danny Logue on the LUPS Committee.

4.6 Financial and Physical Progress Report on the Implementation of the Programmes (Item 6 from 29/10/08 Note)

The Committee raised a number of points. In response to an enquiry by the Commission regarding the N+2 Annex, it was confirmed that the data provided took account of the spend profile of projects. With reference to Item 5 from 29/10/08 Note, the Commission also pointed out that ex-post evaluations were being carried out on all 2000-2006 Programmes and not just Objective 2 Programmes. In relation to JEREMIE (Item 12, 29/10/08 Note), the Commission added that this was funded by ERDF but supported by the European Investment Fund.

4.7 South of Scotland Global Grants Scheme (Item 7 from 29/10/08 Note)

The Convener advised that this scheme was now embedded within the current round, and making good progress.

Scottish Government added that the Global Grants Body was now established and operational, and currently administering the first round.

Committee Members acknowledged and welcomed the progress to date.

4.8 Progress Report on CPPs (Item 9 from 29/10/08 Note)

Referring to the third paragraph, the Commission commented that CPP activity had not been included in the standard progress reports, and added that the intention remained to visit a CPP project. The IAB responded that paper 6 would provide further detail on CPP activity, however agreement would require to be reached regarding an appropriate reporting template for the CPPs feeding back to ESEP. The Convener agreed that the visit to a CPP would be scheduled for the near future, and submitted apologies on behalf of Michelle Gautier (Dundee CPP) who had been unable to give the presentation on the previous evening due to illness. The IAB advised that Michelle had been very apologetic and disappointed at this outcome and suggested that the presentation be rescheduled for the October PMC.

4.9 Scottish Co-Investment Fund/JEREMIE (Item 12 from 29/10/09 Note)

Committee Members requested an update. The Convener suggested this item be deferred for discussion later in the agenda. A further update would also be provided at the May Committee meeting.

4.10 Territorial Cohesion and Structural Funds (Item 13, Para 2 from 29/10/09 Note)

Committee Members requested an update. The Convener advised that a response to the European Commission's Green Paper on Territorial Cohesion had been submitted by the Scottish Government in February and confirmed that this paper was now accessible. Committee Members expressed an interest in engaging with the Commission over the summer period.

The Commission advised that there were a number of specific areas throughout Europe which had been identified for assistance. A public consultation paper would be published in June, and it was anticipated that this could be implemented in late 2009. The consultation document was available via a number of websites as follows:

www.scotland.gov.uk/Topics/Business-Industry/support/17404/latest-news

This site provides the Scottish Government response to the Territorial Cohesion Green Paper (see 27 February news link).

www.ec.europa.eu/regional_policy/consultation/terco/contrib_en.htm

This site lists the total (and substantial) number of other responses from across Europe to the Green Paper.

www.ec.europa.eu/regional_policy/sources/docgener/panorama/pdf/mag28/mag28_en.pdf

This is the December issue of the Commission *inforegio* newsletter, dedicated to the subject which provides a very useful summary.

5. Update on the Scottish Economy

5.1 Paper from John Rigg, Scottish Government

The Convener provided an overview of current output and labour market data.

In summary, the Convener reported:

- the largest quarterly fall in UK GDP since 1980
- the Scottish 2008 Q3 GDP figures indicated declines in manufacturing, construction and services
- in the Scottish 4th quarter, business surveys uniformly dismal
- Labour Force Survey 4th quarter indicates decreases in employment, increases in unemployment and a downturn in labour market participation

Labour Force Survey and claimant count data for those on unemployment related benefits indicate in Scotland that more female staff are being made redundant than male; however, there is no evidence that either younger or older workers are being disproportionately affected. Indicators show proportionately large numbers of those in senior managerial and office jobs, and also skilled trades, becoming unemployed.

Policy responses were being developed by the UK Government, European Commission, development agencies and local authorities. The Scottish Government had published an Economic Recovery Programme with a 6 point Action Plan.

Members acknowledged the current uncertainty and inability to predict how long this period of downturn would last.

The Convener invited comments from the Commission.

The Commission made the following points:

- It had developed a European Recovery Plan in November 2008 the aims of which were to use investment to boost the economy in the short term, but also address issues for the longer term. A package of measures were in place to accelerate this process.
- There has been an additional advance to the Structural Funds Programmes of 2.5%.
- A flat-rate for the calculation of overheads has been proposed and is being considered by Member States.
- Major projects can incur costs prior to formal approval.
- The Commission has introduced a temporary framework on State Aid rules which provides a limited degree of flexibility and relaxation of the thresholds. For example de minimis has been increased from €200k to €500k.
- JESSICA rules have been relaxed with regard to match funding to allow in kind contributions (e.g. land assets) to be used as eligible co-financing.
- The scope of eligible activities for ERDF Priority 3 with regard to the JESSICA initiative would be widened at the end of April 2009 (retrospective from 2007) to include energy efficiency/renewable energy measures for the housing sector.
- A Member State working group was being established to look at further simplification of the Structural Fund rules. Another set of proposals would be available by the end of 2009.
- The Commission accepts that, for public procurement, there is a need to reduce timescales on tendering periods.

The Convener invited the Committee Members from Scottish Enterprise and LINC Scotland to comment.

- Scottish Enterprise had recently conducted an economic downturn review with account managed companies in order to identify the issues they were facing. The economic intelligence gathered through this review has helped to shape the Scottish Enterprise response.
- Results indicated the biggest issue was cashflow; however, this is difficult to address.
- Investment products have now been increased to meet demand in the area of risk capital.
- The Scottish Manufacturing Advisory Scheme has doubled in size to meet increased demand.
- Market development support is currently being developed to assist businesses with an introduction to overseas markets in a 'buy now, pay later' arrangement.
- Accelerated funds have been provided for capital investment in the economy in this and next financial year.

- Welcomed the increase in the de minimis level which will allow more companies to be supported.
- A significant marketing campaign has been undertaken to encourage companies to attend seminars/workshops for one-to-one support. This had proved very successful across a broad spectrum of businesses.
- There remained an acute division between those companies with sufficient working capital and those experiencing difficulties in obtaining credit.
- Angel syndicates are seeing a better quality of companies looking for investment.
- Businesses supported by Angel investors, that would normally receive further development finance from banks and/or Venture Capital Funds, are having to be nurtured for longer by the Angel investors thus leaving less monies for new cases.
- Significant interest has been noted from retail investors.
- Enterprise Investment Scheme Fund had been approved but can only be invested within 1 year. However, it is hoped that it will be possible to extend this funding period to 3 years.

The Convener then invited other members to contribute.

Regarding ESF Priority 2 and the apparent underspend, Committee Members enquired regarding the possibility of creating a rapid response model. The Convener responded that Scottish Government officials were in discussion with SDS and a detailed response to the current economic downturn would be provided at the May meeting. Two strategic applications had been received under ESF: one for Priority 1 and one for Priority 2.

The Convener acknowledged it was difficult to find a balance across the Priorities, but this must be established to address the best way forward in the current downturn. There was also a requirement to address what Scotland would require from the existing programmes when the economy came through the current downturn and recovery was under way.

Committee Members highlighted the need for funds to remain strategic in nature and intervention, and the need to look at promoting a sustainable green economy. There was also a need to remain aware of not just investing in traditional businesses but more fundamentally to promote sustainable growth. The Convener acknowledged this and referred to the continuing need to integrate the Horizontal Themes.

Committee Members requested a note from the Commission regarding their statement at the beginning of discussions at his earliest convenience. The Convener agreed this would be useful.

5.2 Policy Spot Check Presentation by Alec Fraser and Peter Smith, Fraser Associates

The Convener welcomed Alec Fraser and Peter Smith to the meeting and gave a brief explanation of the purpose behind the presentation, namely to assess whether the LUPS Programmes 2007-2013 were fit for purpose in the current economic downturn.

Alec Fraser and Peter Smith gave a brief but comprehensive presentation in support of the paper already issued, providing a number of options and provoking lively discussion amongst members.

In summary, Alec Fraser confirmed that, whilst the ERDF Programme was broadly in line with the Lisbon Agenda, it would be fit for purpose with some subtle adjustments.

The Convener commented that there was a little room for movement in the Second Round, but it would be possible to be more prescriptive in the Third Round. Both ERDF and ESF Programmes had been front loaded with the support of Ministers; however, this was subject to the maintenance of quality thresholds and availability of match funding.

The Commission Members thanked Alec Fraser and Peter Smith for a very informative presentation.

They referred to a recent piece of academic research on skills needs in Scotland and how they were being addressed. In light of the present economic downturn, the Commission highlighted the apparent mismatch between ESF funding in the different Priorities and demand. Care should be taken to continue to focus on those most in need.

Committee Members discussed the balance of resources between the three respective ESF Priorities.

The Convener stated that the Committee were not being asked to approve any of the suggested changes made in the Fraser Associates paper at this stage. The purpose of the presentation had been to generate discussion, on which the Managing Authorities would reflect and report back. A similar approach was being undertaken in the Highlands and Islands. The Convener suggested that a paper on the discussions held be taken forward to the May Committee.

The Commission advised that virement decisions could not be based solely on performance, and required to be balanced with a need to align with the Priority objectives. The Convener advised that the fuller consultation document would, when finalised, be circulated for information.

The Convener thanked Fraser Associates for an informed presentation which provoked interesting discussion.

6. Progress on Physical and Financial Implementation of all Approved Projects ESF and ERDF including CPPs, SDB and South of Scotland Global Grants

The IAB provided an update on financial and physical targets in terms of the currently agreed strategy.

Committee Members noted that figures had been broken down into more detail than in previous presentations. The IAB noted that limited claims information had been submitted and processed to date. Although the Programmes appeared to be on track for N+2, there is no room for complacency.

In the context of changes to the previously approved SDB bid, the Scottish Enterprise Committee Member advised that ITI Scotland would be subsumed within Scottish Enterprise. (This was consistent with the Advisory Group recommendations).

Regarding N+2, the Commission requested the IAB clarify the total forecast grant to the end of 2009 in relation to what projects were looking to spend by the end of the year. The IAB advised that further detail could be found within Annex 3, but added that spend over the 3-4 years had been apportioned to provide information regarding how close the current position is to the N+2 target.

Regarding conversion rates, the Commission suggested that the IAB check the €uro against £sterling within the annex, and suggested that care be taken using £1.13 as the exchange rate.

In response to Committee Members concerns regarding the apparent low absorption capacity to spend, the IAB responded that the challenge was to encourage projects to spend on time.

The Convener advised that the new €UROSYS IT system provided an indication on when project spend had been incurred and whether this was on time. This information would make it easier to manage and monitor projects.

7 Consideration of ESF Advisory Group Reports and Project Recommendations

The IAB explained the two-stage application process, and provided a comprehensive background on points of specific note.

The total recommended ESF grant for the second round is up to £24.6m.

Those projects rejected were mainly due to poor fit with priority parameters. There was a formal appeal process if projects felt they had not been considered according to due process.

The Convener thanked the IAB for their presentation, and also recorded his thanks to the Advisory Group members for their input. Those present noted that new Advisory Group members were being sought, and any enquiries or recommendations could be made to the IAB in the first instance.

Committee Members were disappointed at the number of rejected projects and enquired whether anything could be done to encourage a better quality of application. The Convener responded that feedback was provided at Stage 1 and also later. The IAB added that whilst assistance on the application process was offered to any project applicant making enquiries, to contact each project individually and offer support would be very resource intensive and the IAB was not in a position to fulfil this role.

In response to Committee Members questions about maintaining the level of application numbers, the IAB advised that the intention was to keep the project pipeline flowing and generate activity. Commissioning activity may be an option, but care would need to be taken to ensure that such an approach respects public procurement rules.

The Committee agreed the recommendations.

8. Consideration of ERDF Advisory Group Reports and Project Recommendations

The IAB explained that the general layout of this paper was the same as ESF.

The total recommended ERDF grant for the second round is up to £71.3m.

The IAB brought the following specific points to the attention of members:

- Priority 1: One large scale project (Dundee Pharmacogenomics) had been rejected. Scottish Government added that, whilst it was possible to see the potential and long term benefits to economic development, the project was not focused enough on economic spin-out at this time. It may however be successful if re-submitted at a later date.

Regarding ITI Scotland, the decision on whether to accept or reject this application had been referred to the PMC for decision.

- Priority 3: As one project had been scored by only one Advisory Group member, this was re-issued to all Advisory Group members by Written Procedure to agree the recommendation. However, early indications from the Written Procedure responses were that this project would not be recommended.
- Priority 4 (GGB): Where parallel applications had been received, members sought to be consistent with their recommendations.

The IAB reported that there were several large bids under each Priority. They were listed individually in the paper.

The Convener thanked the IAB for their presentation.

In response to Committee Members queries regarding the availability of match funding in the current climate, the IAB advised that a number of projects currently awaiting a decision were yet to confirm their match funding. The Scottish Government confirmed that match funding should be in place prior to an application being made and that failing to comply could lead to de-commitment. Committee Members were advised that new procedures would be in place in the third round which would ensure that match funding checks were carried out earlier.

With regard to the widening of the scope of eligible activity under Priority 3, Committee Members enquired regarding the potential for projects previously turned down under the existing scope to be reconsidered in advance of the third round. Scottish Government advised that this would not be possible.

Referring to the Glasgow Opportunities applications under ERDF Priority 1, Committee Members asked if they were linked bids and, if so, could one proceed without the other. The IAB commented that it was their understanding that these bids were not linked and that they were stand alone applications.

The Committee agreed the recommendations.

9. Progress on a Proposed JESSICA Fund

The Scottish Government gave a brief overview of the paper circulated to all members. The next meeting of the JESSICA Steering Group would be held on 19 March 2009. A feasibility study had been commissioned from the appointed consultants, Ernst and Young. It was hoped that the agreed model could also be applied in the Highlands and Islands. It was noted that there would be a requirement to widen the scope of the Operational Programmes. An update paper would be submitted to the May Committee meeting.

The Commission pointed out that energy efficiency related to housing and not multiple occupancy.

The Committee Member representing the environmental authorities offered assistance in broadening and promoting the application of energy efficiency and renewable energy dimensions of the JESSICA initiative.

Committee Members identified the need to widen the participation of other sectors in a JESSICA Fund - not just local government - as there were a number of smaller funders in the same field.

The Convener introduced Frank Lee, Head of Product Development for the EIB to the meeting, and invited him to make his presentation on 'JESSICA in Scotland'.

Frank Lee pointed out that JESSICA was being investigated and progressed by other regions in the UK, and that information on those which had already completed their feasibility studies were available via the website: www.eib.org/jessica

The Convener thanked Frank Lee for his presentation. The IAB advised that a copy of the presentation would be circulated to all members for information.

Those present noted that a further more detailed paper would be provided on JESSICA at the May Committee meeting.

The Committee agreed the recommendations.

10. Proposed Changes to LUPS ERDF Priority 4 – Rural Development

It was agreed that the Scottish Government and Commission would jointly agree amendments to the paper for re-submission under the written procedure arrangement.

11. Draft Timetable for 2009 Application Round ESF and ERDF (3rd Round)

The Committee agreed the recommendation of this paper.

This item would now be posted on the IAB website.

12. Dates of Future Meetings

Those present noted the extra-ordinary meeting which had been called for 27 May 2009 and would be held at the Teacher's Building, St Enoch's Square, Glasgow.

There were no items of additional business. The Convener thanked all for attending and thereafter closed the meeting.