



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**. 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 2011 and future years. This is attached as **Annex 2**.
- 1.2 The Committee is also asked to note an increase of £48,409 in the ERDF grant award to LUPS/ERDF/2008/2/3/0313 - Maryhill Burgh Halls in Priority 3 which was made by the Scottish Government under delegated powers.
- 1.3 This paper will also provide the Committee with an update regarding the implementation of the SDB bid by Scottish Enterprise. This assessment will be done in terms of project activity undertaken to date although not yet reported in approved grant claims. This is attached for information at **Annex 3**.

2. Implementation of the ERDF Programme

Figure 1: Cumulative Summary of Financial Performance in ERDF Programme to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
Priority 1: Research and Innovation	60	224,262,004	73,968,207	71,800,570	26,286,554
Priority 2: Enterprise Growth	45	267,771,327	105,706,800	98,915,260	38,974,489
Priority 3: Urban Regeneration	44	160,424,210	64,682,291	69,860,281	31,302,286
Priority 4: Rural Development	34	62,615,196	24,648,434	10,936,450	4,025,651
Priority 5: Technical Assistance	5	8,411,964	4,205,982	3,480,644	1,740,322
Total	188	723,484,701	273,211,714	254,993,205	102,329,302

*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to date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation.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.

Figure 2: 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	41.323%	37.763%	40.130%

- 2.1 A review of progress to date in the ERDF Programme indicates good progress being made with forecast grant totalling nearly **81%** of the available programme allocation having been committed. The overall level of ERDF grant allocated to projects to date is **£273,211,714** and ERDF grant to the value of **£102,329,302** have been processed by the IAB and passed to the Scottish Government for payment to sponsors. With regard to the forecast commitments already made in the Programme, the average ERDF grant intervention rate being requested is still below the approved average for the ERDF Operational Programme and if continued should enable more activity to be supported than was originally envisaged in 2007. Excluding Technical Assistance, there is approximately **£51,235,638** ERDF grant remaining to be allocated. This is split between the four operational priorities as below:

Figure 3: Remaining ERDF Grant

Priority	Approved Grant Allocation (£)	Approved Commitments (£)	Grant Remaining (£)
Priority 1	82,898,704	73,968,207	8,930,497
Priority 2	109,967,669	105,706,800	4,260,869
Priority 3	91,357,756	64,682,291	16,675,465*
Priority 4	46,017,241	24,648,434	21,368,807
Total	330,241,370	269,005,732	51,235,638

*A figure of £10m has also been ring-fenced (although not formally approved) for associated JESSICA infrastructure projects

- 2.2 To date, final grant claims have been processed on **5** ERDF projects. Excluding Technical Assistance, this represents only **2.73%** of the figure for approved projects. Although the current final claim figure is low, it can be explained by the fact that the majority of ERDF projects have expenditure profiled in 2011 and beyond. Of those final claims received, the level of reported underspends represent **2.33%** of the approved grant figure. However, in seeking to estimate the potential levels of underspend that might be identified over the next two years, it should be noted that Commission rules regarding ERDF grant **paid into** loan/equity funds does not allow any of this grant to be recycled. As a consequence this will reduce the level of underspends that will accrue to the programme as more final grant claims are processed.
- 2.3 In addition to the underspends declared at final claim stage, it is also clear that some ERDF grant is being recycled back into the Programme through the withdrawal of some projects or the reduction in grant requested by sponsors as they review the final details of their application prior to the IAB issuing the grant offer letter. It is clear that a lack of anticipated co-finance is the key factor here with many approved projects being multi-year revenue schemes where the lead sponsor often can only confirm co-finance on an annual basis.
- 2.4 Notwithstanding the strong performance of the ERDF Programme overall, it should be noted that performance across all four operational priorities is mixed. Although there are very high commitment levels in Priority 1 – Research and Innovation and Priority 2 – Enterprise Growth, there are still relatively low commitment levels in Priority 3 – Urban Regeneration and Priority 4 – Rural Development. This situation will require either further development work with sponsors in order to stimulate new project activity if the Operational Programme is to be implemented as currently approved, or decisions made regarding more targeted allocation calls and/or resource virement between priorities in order to maximise overall commitment levels in the Programme.

- 2.5 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 application and grant claim forms submitted onto the EUROSYS management system. For the purpose of this report and to enable realistic financial comparisons and forecasts to be made, an average exchange rate of 1 EURO = £0.90 or £1 = 1.11 has been used.
- 2.6 The following reports on the implementation of the four operational priorities highlight a much higher level of forecast activity and reported achievements than was envisaged in the targets set in the original Operational Programme. Although further work needs to be done by the Scottish Government and the IAB to review the approved targets, there are a number of factors which may partly explain these variances:
- the nature of the interventions have been less intensive with SMEs than was originally envisaged in 2006. The average cost per intervention has been lower than expected thus enabling more SMEs to be assisted overall;
 - in Priorities 3 and 4, some sponsors have selected a number of indicators which they believe reflect the range of activities covered by their project, rather than one principal indicator which represents the best fit. As a consequence there is some double-counting particularly with capital projects; and,
 - The average grant intervention rate for project commitments is lower in all four priorities than that detailed in the revised financing plan to the Programme Complement. As a result more projects are being supported than the original budget anticipated.

2.7 PRIORITY 1: RESEARCH AND INNOVATION

Figure 4: 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	37.294%	32.983%	36.611%

Figure 5: 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	8,311	89%	332%	4,081	32%	163%
Number of research networks/ collaborations supported	600	1,310	89%	218%	732	32%	122%
Number of renewable energy projects supported	150	358	89%	239%	118	32%	79%

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	1,821	89%	101%	280	32%	16%
Increase in turnover by supported enterprises (£m)	150	346	89%	231%	54	32%	36%
Number of new products and services developed by supported research networks	900	805	89%	89%	98	32%	11%
Number of gross jobs created	6,100	5,149	89%	84%	595	32%	10%
Number of net new jobs created	*	*	89%	*	*	32%	*
Increase in research/innovation expenditure by supported enterprises	*	*	89%	*	*	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 strong interest in this priority to date and nearly **89%** of the available budget has been allocated to 60 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 high commitment level it has resulted in a majority 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.

Of the projects approved to date in Priority 1, there has been a concentration of applications and resources to three organisational types. These are the SE/HIE Network, Higher Education and Others sector, all of whom are involved in the development of technology transfer and applied research initiatives with local SMEs.

2.8 PRIORITY 2: ENTERPRISE GROWTH

Figure 6: 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	40.000%	39.477%	39.402%

Figure 7: 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	6,504	96%	2,602%	2,263	35%	905%
Number of individuals/ enterprises receiving advice/ consultancy	11,600	33,432	96%	288%	18,131	35%	156%
Number of enterprises receiving support for e-commerce	5,700	6,079	96%	107%	3,773	35%	66%
Number of enterprises receiving support for energy-saving and resource efficiency	5,700	3,454	96%	61%	2,155	35%	38%

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	150.11	96%	107%	17.13	35%	12%
Number of new business starts	5,500	9,506	96%	173%	5,596	35%	102%
Number of e-commerce strategies developed	4,100	2,533	96%	62%	1,207	35%	29%
Number of enterprises implementing environmental audits and energy-saving/ resource efficiency systems	4,100	1,615	96%	39%	312	35%	8%
Number of gross jobs created	13,600	21,986	96%	162%	7,450	35%	55%
Number of net new jobs created	*	*	96%	*	*	35%	*
Gross value added in supported enterprises	*	*	96%	*	*	35%	*

* 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 a strong interest in this Priority to date and **96%** of the available budget has been allocated to 45 projects. Of the £105.7m grant committed to date, a total of £74.45m is comprised of five awards to support venture capital and loan funds in order to increase the investment available to SMEs in the Programme Area. These are the Scottish Co-investment Fund, the Scottish Venture Fund, the Scottish Investment Bank Loan Fund, the East of Scotland Investment Fund and the West of Scotland Loan Fund.

On the basis of the commitments made to date some of the approved indicators are already being forecast for full achievement. With regard to the 'Number of enterprises receiving financial support' the forecast figure, in view of the greater than anticipated investment in VCLFs, understandably exceeds the approved programme target. 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.

Of the projects approved to date in Priority 2, there has been a reasonable spread of applications between organisational types. However, due to the concentration of resources on VCLF activity, a majority of the awards have gone to the SE/HIE Network.

2.9 PRIORITY 3: URBAN REGENERATION

Figure 8: 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	48.000%	40.320%	44.807%

Figure 9: 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	121	71%	403%	89	34%	297%
Number of ICT and e-learning facilities supported	40	74	71%	185%	44	34%	110%
Number of childcare and other community facilities supported	30	64	71%	213%	12	34%	40%
Number of transport hub projects supported	25	6	71%	24%	0	34%	0%
Area of business space created or modified (m ²)	7,500	18,734	71%	250%	75	34%	1%
Number of renewable energy and resource/energy-efficiency projects supported	90	1	71%	1%	1	34%	1%

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	14,980	71%	2,305%	6,547	34%	1,007%
Increase in the number of individuals gaining employment through supported e-learning/ ICT facilities	650	1,987	71%	306%	459	34%	71%
Increase in the number of individuals gaining employment through supported childcare/ community facilities	500	889	71%	178%	0	34%	0%
Number of enterprises supported	1,100	1,564	71%	142%	703	34%	64%
Number of social enterprises supported	350	82	71%	23%	27	34%	8%
Number of gross jobs created	4,500	3,729	71%	83%	542	34%	12%

Time saved per journey (journey time x freight/ passenger volume)	*	*	71%	*	*	34%	*
Increase in share of energy from renewable resources in supported areas	*	*	71%	*	*	34%	*
Number of net new jobs created	*	*	71%	*	*	34%	*

* 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 reasonable level of interest in this Priority to date with **71%** of the available budget being allocated to 44 projects. The allocation figure for the Priority has improved in recent months with the formal approval of the JESSICA Holding Fund. In addition, the IAB has undertaken additional work with the partnership in order to stimulate interest and highlight the scope of what can be funded through this Priority. This has already been noticed in the higher number of potential projects being submitted. 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. A number of approved CPP proposals in respect of ERDF are highly focused on job brokerage, ICT and business incubation facilities. Two indicators where there has been a particularly low level of progress against the approved targets are 'Number of transport hub projects supported' and 'Number of renewable energy and resource/energy-efficiency projects supported'.

It can also be seen that there has been a concentration of applications and resources in Priority 3 on projects from the local authority sector. This can be explained by the key role that local authorities have in the organization, resourcing and leadership of many Community Planning Partnerships. A figure of £10m has also been ring-fenced (although not formally approved) for associated JESSICA infrastructure projects.

2.10 PRIORITY 4: RURAL DEVELOPMENT

Figure 10: 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	40.000%	39.365%	36.809%

Figure 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	6,419	54%	458%	331	9%	248%
Number of e-learning/ childcare and other community facilities supported	40	53	54%	132%	0	9%	0%
Area of business space created or modified (m ²)	2,400	73,886	54%	3,079%	0	9%	0%
Number of educational access projects supported	20	12	54%	60%	1	9%	5%
Number of local transport projects supported	20	6	54%	30%	1	9%	5%

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	152	54%	17%	61	9%	7%
Number of enterprises introducing new supply and production processes	910	302	54%	33%	80	9%	9%
Number of enterprises benefiting from supported facilities	900	676	54%	75%	102	9%	11%
Occupancy rates of business space by the end of the Programme	90%	90%	54%	100%	0%	9%	0%
Number of gross jobs created	1,400	1,400	54%	100%	1,560	9%	111%
Number of enterprises accessing higher and further education research/ training resources	*	*	54%	*	*	9%	*
Time saved per journey (journey time x freight/ passenger volume)	*	*	54%	*	*	9%	*
Increase in gross value added per employee in supported enterprises	*	*	54%	*	*	9%	*
Number of net new jobs created	*	*	54%	*	*	9%	*
Increase in turnover in supported enterprises	*	*	54%	*	*	9%	*
Increase in gross value added in supported enterprises	*	*	54%	*	*	9%	*

* 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 low level of interest in this Priority to date with only **54%** of the available budget being allocated to only 34 projects. This can partly be explained by delays experienced in establishing the South of Scotland Global Grants body (GGB), meaning that up until April 2009 no Priority 4 activity had been supported in this part of the Programme Area although it is also accepted that this should be a factor that should by now be less of an issue.. Following the changes to the eligible activity scope of the Priority agreed by the Commission a considerable amount of proactive development work has been undertaken with the partnership in order to identify and help develop potential new funding opportunities. It is hoped that this will be translated into more mature applications being submitted in future months. Despite the low relatively low level of interest the indicator for 'Area of business space created or modified (m2)' is forecast to be achieved many times over. Although the original programme target was modest, the data on EUROSYS for this indicator needs to be reviewed to ensure its integrity and reliability.

There has been a reasonable spread of applications and resources between different organisational types in Priority 4 with seven receiving some support. Of these, the two biggest grant recipients to date have been the further education sector and tourist organisations.

3. Implementation of the ESF Programme

Figure 12: Cumulative Summary of Financial Performance in ESF Programme to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
Priority 1: Progressing into Employment	196	272,434,904	109,527,646	147,216,804	59,819,833
Priority 2: Progressing through Employment	61	116,623,330	50,377,898	35,608,536	15,124,524
Priority 3: Improving Access to Lifelong Learning	26	25,604,619	11,166,991	14,685,983	6,207,325
Priority 4: Technical Assistance	4	6,040,596	3,020,298	2,363,096	1,181,548
Priority 5: Strategic Skills Pipeline	21	170,491,875	64,300,619	0	0
Total	308	591,195,324	238,393,452	199,874,419	82,333,230

*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.

Figure 13: 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	45.108%	40.324%	41.192%

- 3.1 A review of progress to date in the ESF Programme indicates grant allocations totalling over **98%** of the available programme allocation having been committed. The overall level of ESF grant committed to projects to date is **£238,393,452** and ESF grant to the value of **£82,333,230** has been processed in claims by the IAB and passed to the Scottish Government for payment to sponsors. 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 this trend continued should enable significantly more activity to be supported. Excluding Technical Assistance, there is approximately **£1,725,401** ESF grant remaining to be allocated. This is split between the four operational priorities as below

Figure 14: Remaining ESF Grant

Priority	Approved Grant Allocation (£)	Approved Commitments (£)	Grant Remaining (£)
Priority 1	114,932,871	109,527,646	5,405,225
Priority 2	53,918,826	50,377,898	3,540,928
Priority 3	12,135,928	11,166,991	968,937
Priority 5	56,110,930	64,300,619	-8,189,689
Total	237,098,555	235,373,154	1,725,401

- 3.2 To date, final grant claims have been processed on **102** ESF projects. Excluding Technical Assistance, this represents **33.55%** of the figure for approved projects. This figure reflects the decision of Ministers to front-load the ESF Programme particularly with the high early grant awards in Priority 1. Of those final claims received, the level of reported underspends represent **13.66%** of the approved grant figure. This is often due to projects not spending their full approved expenditure. Under the National Rules of Expenditure governing the current operation of the Structural Funds Programmes in Scotland, applicants are required to use their full approved co-finance first. As a result, the approved grant figure will vary depending on the level of project underspend.
- 3.3 In addition to the underspends declared at final claim stage, it is also clear that some ESF grant is being recycled back into the Programme through the withdrawal of some projects or the reduction in grant requested by sponsors as they review the final details of their application prior to the IAB issuing the grant offer letter. This factor will predominantly only affect those approved projects in ESF Priority 5 where sponsors are yet to finalise all aspects of the project implementation.
- 3.4 The recent approval of projects by Ministers in ESF Priority 5 – Strategic Skills Pipeline and the over-commitment of resources which was agreed has now been fully offset by underspends and de-commitments from previously approved projects in Priorities 1, 2 and 3.
- 3.5 A full analysis of implementation to date in each ESF Priority is 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 application and grant claim forms submitted onto the EUROSYS management system. For the purpose of this report and to enable realistic financial comparisons and forecasts to be made, an average exchange rate of 1 EURO = £0.90 or £1 = 1.11 has been used.

3.6 PRIORITY 1: PROGRESSING INTO EMPLOYMENT

Figure 15: 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	45.000%	40.203%	40.634%

Figure 16: 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	80,400	151,018	95%	188%	116,392	52%	145%
Number of participants with multiple deprivations (i.e. those who qualify for 2 or more of the target groups)	39,900	117,445	95%	294%	89,168	52%	223%
Number of participants in the NEET group	8,100	40,416	95%	499%	26,911	52%	332%
Number of participants with disabilities or health difficulties	16,200	35,509	95%	219%	24,211	52%	149%

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	26,400	44,160	95%	167%	19,958	52%	76%
Number of participants entering education or training	26,400	35,609	95%	135%	14,362	52%	54%
Number of participants gaining a partial (i.e. a completed unit towards a full qualification) or full qualification	39,600	65,477	95%	161%	17,340	52%	44%
Number of participants in employment six months after leaving	13,200	31,246	95%	237%	7,673	52%	58%
Number of participants who progress towards employment	*	*	95%	*	*	52%	*
Net number of participants entering employment	*	*	95%	*	*	52%	*

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

** The figures used for Approved Programme Target are the revised figures agreed by the Commission following the most recent virement proposal

Progress to Date in Implementing Priority 1 and Key Operational Issues

When fully operational, there was very strong interest in this Priority and after a number of recent de-commitments and changes to approved budgets over **95%** of the available revised budget is currently still allocated to 196 projects. Amongst this allocation figure are thirteen CPP bids approved by Scottish Ministers which have been awarded £52.4m ESF grant (including 2nd phase) and over £6.7m awarded to 43 projects in the Shadow Round. As a consequence of this high commitment level, all of the revised 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.

There are two key factors which have combined to influence Priority 1 implementation to date and help explain why the forecast and actual performance on project commitments is so high in comparison with the approved Programme targets. These are:

- a lower grant intervention rate being required per project (40.2% compared with an average in the agreed financial tables of 45%) which has enabled more projects to be approved than was originally assumed in 2007; and,
- the nature of the participant intervention on approved commitments proving to be very different to that envisaged at the time the Programme was approved. The original targets were set with the assumption that a much smaller number of participants would be assisted during the programme period, at an average of €4,556 ESF grant per participant. In contrast, the project commitments supported to date have shown higher volume targets with shorter, less intense interventions being undertaken at a significantly lower unit cost than the assumed average for the priority. This reflects in part a response to the changing economic environment and client group.

There has been a reasonable spread of applications and resources between different organisational types in Priority 1. Of these, the three biggest grant recipients to date have been the local authorities, the voluntary sector and the further education sector.

3.7 *PRIORITY 2: PROGRESSING THROUGH EMPLOYMENT*

Figure 17: 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	45.000%	43.197%	42.474%

Figure 18: 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	44,000	100,591	93%	229%	25,444	28%	58%
Number of male participants without basic skills	7,440	8,994	93%	121%	4,041	28%	54%
Number of female participants without basic skills	7,440	7,567	93%	102%	3,628	28%	49%
Number of male participants without level 2 skills	6,480	12,276	93%	189%	1,525	28%	24%
Number of female participants without level 2 skills	6,480	9,299	93%	143%	1,047	28%	16%
Number of male participants without level 3 skills	2,800	23,081	93%	824%	3,128	28%	112%
Number of female participants without level 3 skills	2,800	17,295	93%	618%	2,278	28%	81%
Number of women in projects addressing better gender balance	2,640	3,260	93%	123%	1,616	28%	61%
Number of men in projects addressing better gender balance	880	1,274	93%	145%	531	28%	60%
Number of participants in projects addressing entrepreneurial and managerial skills	3,520	23,795	93%	676%	3,957	28%	112%
Number of participants from social enterprises	3,520	5,999	93%	170%	1,237	28%	35%

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	16,000	68,438	93%	428%	7,212	28%	45%
Number of male participants gaining basic skills	2,960	4,095	93%	138%	689	28%	23%
Number of female participants gaining basic skills	2,960	4,212	93%	142%	808	28%	27%
Number of male participants gaining level 2 skills	2,000	16,596	93%	830%	1,697	28%	85%
Number of female participants gaining level 2 skills	2,000	12,682	93%	634%	1,909	28%	95%
Number of male participants gaining level 3 or above skills	560	17,243	93%	3,079%	937	28%	167%
Number of female participants gaining level 3 or above skills	560	13,589	93%	2,427%	1,019	28%	182%

Number of women going into gender-imbalanced sectors	1,584	2,834	93%	179%	1,445	28%	91%
Number of men going into gender-imbalanced sectors	528	955	93%	181%	204	28%	39%
Number of entrepreneurs and new managers gaining a partial or full qualification	2,480	6,584	93%	265%	810	28%	33%
Number of participants from social enterprises completing a partial or full qualification	2,480	2,329	93%	94%	437	28%	18%
Number of participants who progress into more secure or better-skilled employment	*	*	93%	*	*	28%	*
Number of companies benefiting from improved skills training	*	*	93%	*	*	28%	*
Number of social enterprises benefiting from improved skills training	*	*	93%	*	*	28%	*

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

** The figures used for Approved Programme Target are the revised figures agreed by the Commission following the most recent virement proposal

Progress to Date in Implementing Priority 2

When fully operational, there was a fairly strong interest in this Priority and after a number of recent de-commitments and changes to approved budgets over **93%** of the available revised budget is currently still allocated to 61 projects.

On the basis of the project commitments made, most of the approved indicators are already being forecast for full achievement. This is undoubtedly due to the approved programme target figures being revised downwards in the most recent virement proposal to reflect the loss of resources to the Priority.

There are two key factors which have combined to influence Priority 2 implementation to date and help explain why the forecast and actual performance on project commitments is so high in comparison with the approved Programme targets. These are:

- a lower grant intervention rate being required per project (43.197% compared with an average in the agreed financial tables of 45%) which has enabled more projects to be approved than was originally assumed in 2007; and,
- the nature of the participant intervention on approved commitments proving to be very different to that envisaged at the time the Programme was approved. The original targets were set with the assumption that a much smaller number of participants would be assisted during the programme period, at an average of €1,811 ESF grant per participant. In contrast, the project commitments supported to date have shown higher volume targets with shorter, less intense interventions being undertaken at a significantly lower unit cost than the assumed average for the priority.

There has been a good spread of applications and resources between different organisational types in Priority 2. Of these, the three biggest grant recipients to date have been the Central Government Department/Agencies, the further education sector and the voluntary sector.

3.8 PRIORITY 3: IMPROVING ACCESS TO LIFELONG LEARNING

Figure 19: 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	45.000%	43.613%	42.267%

Figure 20: 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	1,750	1,873	92%	107%	1,996	51%	114%
Number of projects supporting the development of new courses/materials or innovative approaches to learning	42	575	92%	1,369%	458	51%	1,090%
Number of local learning centres/ access points/ workplace initiatives supported	245	570	92%	233%	296	51%	121%

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	1,120	1,543	92%	138%	350	51%	31%
Number of new courses/materials developed	550	1,202	92%	219%	502	51%	91%
Number of participants benefiting from support	6,300	35,933	92%	570%	25,961	51%	412%
Number of participants completing a partial or full qualification as a result of supported projects	*	*	92%	*	*	51%	*

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

** The figures used for Approved Programme Target are the revised figures agreed by the Commission following the most recent virement proposal

Progress to Date in Implementing Priority 3

When fully operational, there was a fairly weak interest in this Priority and after a number of recent de-commitments and changes to approved budgets over **92%** of the available revised budget is currently still allocated to 26 projects.

On the basis of the project commitments made albeit at a lower average level of grant intervention, most of the approved indicators are already being forecast for full achievement. This is undoubtedly due to the approved programme target figures being revised downwards in the most recent virement proposal to reflect the loss of resources to the Priority.

There has been a concentration of applications and resources on three organisational types in Priority 3. These are the further education sector, others and the voluntary sector.

3.9 *PRIORITY 5: STRATEGIC SKILLS PIPELINE*

Figure 21: Comparison of Approved Average Grant Rate for Priority 5 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	45.000%	37.715%	0.000%

Figure 22: Analysis of Priority 5 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	28,300	0	115%	0%	0	0%	0%
Number of participants with multiple deprivations	15,100	0	115%	0%	0	0%	0%
Number of participants in the NEET group	4,700	0	115%	0%	0	0%	0%
Number of participants with disabilities or health difficulties	6,400	0	115%	0%	0	0%	0%
Number of male participants without basic skills	6,100	0	115%	0%	0	0%	0%
Number of female participants without basic skills.	6,100	0	115%	0%	0	0%	0%
Number of male participants without level 2 skills	3,800	0	115%	0%	0	0%	0%
Number of female participants without level 2 skills	3,800	0	115%	0%	0	0%	0%
Number of male participants without level 3 skills	1,900	0	115%	0%	0	0%	0%
Number of female participants without level 3 skills	1,900	0	115%	0%	0	0%	0%
Number of women in projects addressing better gender balance	900	0	115%	0%	0	0%	0%

Number of men in projects addressing better gender imbalance	300	0	115%	0%	0	0%	0%
Number of participants in projects addressing entrepreneurial managerial skills	2400	0	115%	0%	0	0%	0%
Number of participants from social enterprises	400	0	115%	0%	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
Number of participants entering employment	6,200	0	115%	0%	0	0%	0%
Number of participants entering education or training	5,700	0	115%	0%	0	0%	0%
Number of (previously non-employed) participants in employment six months after leaving.	3,200	0	115%	0%	0	0%	0%
Number of participants gaining a full qualification	8,500	0	115%	0%	0	0%	0%
Number of participants gaining a partial qualification	5,700	0	115%	0%	0	0%	0%
Number of male participants gaining basic skills	3,500	0	115%	0%	0	0%	0%
Number of female participants gaining basic skills	3,500	0	115%	0%	0	0%	0%
Number of male participants gaining level 2 skills	2,000	0	115%	0%	0	0%	0%
Number of female participants gaining level 2 skills	2,000	0	115%	0%	0	0%	0%
Number of male participants gaining level 3 or above skills	300	0	115%	0%	0	0%	0%
Number of female participants gaining level 3 or above skills	300	0	115%	0%	0	0%	0%
Number of women going into gender-imbalanced sectors	500	0	115%	0%	0	0%	0%
Number of men going into gender-imbalanced sectors	200	0	115%	0%	0	0%	0%
Number of entrepreneurs and new managers gaining a full qualification	600	0	115%	0%	0	0%	0%
Number of entrepreneurs and new managers gaining a partial qualification	500	0	115%	0%	0	0%	0%

Number of participants from social enterprises gaining a full qualification	100	0	115%	0%	0	0%	0%
Number of participants from social enterprises gaining a partial qualification	100	0	115%	0%	0	0%	0%

** The figures used for Approved Programme Target are the revised figures agreed by the Commission following the most recent virement proposal

Progress to Date in Implementing Priority 5

There has been a very strong interest in this Priority to date and **115%** of the available budget has been allocated to 21 projects, although the project figure will increase as the SCVO grant award is being implemented by up to 12 delivery bodies. Of the £64.3m grant committed to date, a total of £32.351m is comprised of seventeen awards to local CPP networks with the balance being delivered through four strategic bids.

At the time of writing, not all the Stage 2 bids had been fully completed on the EUROSYS system. As a result, it has not been possible to fully estimate the forecast performance of the 21 projects against the approved programme targets for Priority 5.

4. Progress in Achieving N+2

- 4.1 The financial discipline of achieving spend to agreed deadlines remains a regulatory requirement for the 2007 – 2013 Programming period 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 2 (2008) budget allocation (minus advance payments) requires to be paid out and declared to the Commission by 31 December of Year 4 (2010) and so on. The N+2 target for 2010 was successfully achieved in the LUPS ERDF and ESF Programmes. The attached **Annex 2** outlines the indicative expenditure targets which have to be met by the end of the remaining calendar years of the Programmes 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 expenditure targets. The focus on delivery of a significant level of funding under certain Priorities by CPPs and the Strategic Delivery Body in particular, are expected to result in early expenditure. In addition, stronger up-front compliance should ensure that only projects that can meet individual expenditure targets should retain grant
- 4.3 It should be noted that in order to comply with the Four Stage Post Approval Compliance Strategy developed for the Scottish Structural Fund Programmes, the Scottish Government requires the completion of 20% project expenditure checks for each grant claim received before any N+2 expenditure declaration for the ERDF and ESF Programmes is made to the Commission. With reference to **Annex 2**, the IAB have included figures for 'Grant Paid to Projects where 20% Verifications have been completed. Any ineligible expenditure identified during the verification of these claims has also been deducted. On the basis of these figures, it can be seen that the 2011 N+2 targets will be achieved for both the ERDF and ESF Programmes. However, it should be noted that these figures will not become official until the ERDF and ESF Managing Authorities accept all completed verification checks from the IAB and formally declare the appropriate claim taking full account of any identified ineligible expenditure.

5. Change in Approved Project

- 5.1 The Committee is also asked to note an increase of £48,409 in the ERDF grant award to LUPS/ERDF/2008/2/3/0313 - Maryhill Burgh Halls in Priority 3 which was made by the Scottish Government under delegated powers. The eligible expenditure on this voluntary sector project has increased due to unforeseen items of work that have arisen during the contract works. Other funders particularly the Heritage Lottery Fund have also been approached to increase their co-finance to meet the new contract cost. The revised grant award for the project is now £1,327,423 out of a revised eligible expenditure totalling £4,230,156.

6. Recommendations

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 latest position on N+2 as detailed in Section 4 of this report and attached **Annex 2**;
- 6.1.4 Note the increase in ERDF grant award made to LUPS/ERDF/2008/2/3/0313 - Maryhill Burgh Halls as detailed in Section 5 of this report; and,
- 6.1.5 Note the update regarding the implementation of the SDB bid by Scottish Enterprise which is attached as **Annex 3**.

Nigel Thomas
ESEP Ltd
Tel: 01383 420690
Email: nthomas@esep.co.uk

MAY 2011