



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

OPTIONS FOR PRIORITISING AND TARGETING THE BALANCE OF FUNDS AND REPORTED UNDERSPENDS UNDER THE ESF PROGRAMME PRIORITIES

1. Purpose

- 1.1 To update the Committee on the current position on underspends in the LUPS ESF Programme and the option for use of future underspends.

2. Background

- 2.1 Alongside the presentations on the economy, financial and physical progress and information contained in the annual reports, this paper aims to provide this Committee with recommendations on the use of underspends for the LUPS ESF Programme.
- 2.2 At previous meetings the Monitoring Committee agreed to the creation of the Priority 5 'Strategic Skills Pipeline' for ESF. This has been useful direction and we have been encouraged by the quality of the projects that have emerged from this more targeted approach.
- 2.3 A Decision paper on the use of underspends (reference: LUPS/11/01/07 FOR DECISION) was presented at the March 2011 PMC. The Committee agreed to the withdrawal of that paper to allow for a more detailed analysis to be provided at the May 2011 PMC reflecting the ESF and ERDF Programmes as a whole.

3 Policy background

- 3.1 The new government has set out an ambitious and challenging vision covering employability, research and innovation, enterprise growth, urban regeneration and rural development. Ministers have been clear in recognising the contribution that Structural Funds have made in meeting their goals in the past and since the May 2011 Scottish Election have stressed the need for the LUPS Programme to continue to support that vision. Ministers also recognise the close alignment of the domestic policy and purpose with the priorities identified in Europe 2020 Strategy (Smart, Sustainable and Inclusive Growth)

4 Current Underspend Position

- 4.1 A total of **308** projects (including 4 technical assistance projects) are still approved in the ESF LUPS Programme. Although every effort is made by sponsors to ensure full and effective delivery of agreed activity, there are a number of reasons why projects do not require the full level of approved ESF grant, for example lower than anticipated client demand or changing operational and funding circumstances. *The National Rules for Expenditure for Structural Funds* which governs the eligibility of all ESF and ERDF activity is clear that Structural Fund grant will be used as the last piece of the funding for a project. As a result, any underspend on projects may result in an element of approved grant not being required at final claim stage as sponsors have to use their confirmed match funding first.
- 4.2 The Programme Monitoring Committee discussed a number of options for the use of any LUPS ESF underspends at the meeting on 27 October 2010. At that point the general consensus was that underspends should be used more strategically in line with developments in the Operational Programme. This reduced the original 4 options proposed to two. These are;
- 4.2.1 Use the underspend to extend approved 2 year Strategic Skills Pipeline Priority 5 projects for a further year 2013 – 2014, and;
- 4.2.2 Use some of the underspend if needed for an exceptional project to contribute to a specific local economic challenge.
- Members asked officials to bring forward a paper to the March 2011 PMC to allow them to consider these remaining options against the background of additional information on the UK Defence spending plans, Programme spend, the final shape of the Scottish Budget, and the economic situation at the start of 2011.
- 4.3 The current analysis of the progress of projects in the first 3 rounds of the ESF LUPS Programme shows that it is likely that the amended Programme targets for Priorities 1, 2, and 3, will be predominantly achieved.
- 4.4 Excluding Technical Assistance, a total of **£1,725,401** ESF grant remains available for reallocation in the Programme at this point with over 98% allocated to projects. The unallocated funding remaining is small; however, so far only **34%** of the Programme grant has been claimed and paid out to sponsors. This suggests that there remains a high probability for potential underspends, although it is notoriously difficult to predict exact underspends until close to the end of the Programme period.
- 4.5 Following the March PMC, further analysis on underspends has been completed by the IAB and the table below in 4.6 identifies the potential extrapolated underspend level at this stage. It should be noted this is only a snap-shot of the current financial position and previous experience of ESF Programmes is that the underspend level could potentially be within the range of 5 -10%.
- 4.6 There have been **102** final claims processed for the ESF Programme to date. The level of approved expenditure on these projects equates to **8.37%** of the ESF Programme and the average level of reported project underspend to date on approved ESF allocations has been **13.66%**. If this current % figure for underspends is extrapolated in full on the remaining grant allocation in the ESF Programme where final claims have not yet been processed then the additional underspend for the ESF Programme could result in an additional £30.872m being available for allocation

Table 1: Analysis of Potential Underspends

Total ESF Programme Allocation*	£242,928,848
Number of Final Claims Paid	102
Declared underspend % from Final Claims paid	13.66%
Value of remaining ESF grant where Final Claims are not yet paid	£226,000,937
Application of ESF Programme underspend figures	
	5% £ 11,300,047
	10% £ 22,600,094
	13.66% £ 30,871,728

*For Comparative purposes, the Sterling and EURO Figures are based on an average exchange rate of 1 EURO = £0.90 or £1 = 1.111 €

- 4.7 The declared underspend figure to date of **£2,780,815** has been identified through a combination of final claim payments. This is combined with other grant recycled to the ESF Programme through partial grant de-commitments and withdrawn projects. It should be remembered though that in both these categories the opportunities for identification of further underspends at the current rate may be reduced due to:
- Improved sponsor understanding of the National Rules for Expenditure;
 - A smaller number of larger projects are yet to be approved and have yet to finalise their co-finance.
- 4.8 The MA and the IAB (ESEP Ltd) are working together to close ESF projects, verify and pay final claims and identify any associated underspends. Based on the Project Sponsors profiled spend the number of 'live' projects in the ESF Programme is expected to reduce by 60 projects over the next 6 months and through portfolio management the MA and IAB will ensure that the level of underspends are closely monitored and identified at the earliest stage possible.
- 4.9 Although the employment position is improving in Scotland the economy remains susceptible to economic shocks, e.g. the outcome of the UK Defence Review. In light of this, It would seem appropriate for the Managing Authority to be open to receiving project applications which contribute to a specific local economic challenge and we would recommend that the Committee agrees to ring-fencing £500K of the ESF grant arising from underspends for an exceptional project which contributes to this.
- 4.10 The ESF required for the full funding of a third year of Priority 5 would be up to £33 million. As 162 ESF LUPS projects (52% of the approved ESF project figure) are scheduled to have had their final claims processed by end October 2011, it is likely that the MA will be in a better position by the October 2011 PMC to give a more accurate update on the declared levels of underspends being identified and to make a more informed decision.
- 4.11 As the levels of any significant underspend will not become apparent until October 2011 at the earliest a decision on the allocation of any underspends to Priority 5 bidders will not reasonably be able to be made until after this date. To allow the PMC to consider more effectively the options for underspend, the MA invite members to agree to the deferral of any decision on underspends until the October PMC. This will allow a more accurate analysis of underspends and will also allow reflection on the implementation of the Priority 5 'Strategic skills pipeline' approach to date.

- 4.12 Use of underspends as described above will require the Managing Authority to make adjustments to the Financial tables for the LUPS ESF Operational Programme and inform the Commission in due course. The Managing Authority intend to include the option for private sector match as part of this adjustment to the Financial tables. Any adjustments would not be made until Committee members have agreed the approach to the use of underspends.

5 Conclusion

- 5.1 The Committee is invited to:

- 5.1.1 Note the level of underspends identified in the ESF Programme to date;
- 5.1.2 Agree to ring-fence £500K ESF grant from any underspends in the ESF Programme which would be used for an exceptional project relating to a specific local economic challenge;
- 5.1.3 Agree to defer any decision on the use of underspends until the October 2011 PMC until a more definitive position on the level of underspends and the performance of existing Priority 5 projects will be available.

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