



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 in achieving the approved N+2 targets for 2011 and future years. This is attached for information as **Annex 2**. However, it should be noted that these figures remain indicative 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.
- 1.2 An analysis has also been undertaken of the ERDF and ESF Programmes with regard to the progress being made in the processing of grant claims and the completion of verification visits as specified in the description of Management and Control Systems (MCS). Presentations on the MCS have been made previously to this Committee, but it is a crucial document which determines the types and levels of verification checks which need to be completed before any expenditure declarations can be made to the Commission by the Paying Authority. This is attached for information as **Annexes 3(i) – 3(ii)**.
- 1.3 In addition, an analysis has been undertaken of ERDF and ESF commitments that categorises them in line with Commission Regulation (EC) No 1828/2006 Annex II: Categorisation of Funds assistance for 2007 – 2013 and also their NUTS territorial classification code. This is attached for information as **Annexes 4(i) – 4(ii)**.
- 1.4 An analysis has also been undertaken of the ESF Programme to date in order to identify participant beneficiaries in respect of gender, prime target groups, secondary target groups, age breakdown and ethnic breakdown. This is based on details provided to the EUROSYS management system on approved project forms and is attached for information as **Annex 5**.
- 1.5 Finally, the Committee is asked to formally agree a change in lead sponsor for LUPS/ERDF/2009/3/1/0290 – Edinburgh Climate Change Centre (ECCC). This is outlined in Section 5.

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	61	230,560,276	75,025,988	103,677,450	38,089,410
Priority 2: Enterprise Growth	44	266,458,235	105,133,088	107,804,543	42,250,106
Priority 3: Urban Regeneration	43	154,743,870	62,711,119	80,571,367	35,225,491
Priority 4: Rural Development	36	61,646,596	24,221,790	14,446,090	5,412,517
Priority 5: Technical Assistance	5	8,411,964	4,205,982	4,057,883	2,028,941
Total	189	721,820,941	271,297,967	310,557,333	123,006,465

*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%	37.585%	39.608%

- 2.1 A review of progress to date in the ERDF Programme indicates good progress being made with forecast grant totalling over **80%** of the available programme allocation having been committed. The overall level of ERDF grant allocated to projects to date is **£271,297,967** and ERDF grant to the value of **£123,006,465** 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 maintained will enable more activity to be supported than was originally envisaged in 2007. Excluding Technical Assistance, there is approximately **£53,149,385** 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	75,025,988	7,872,716
Priority 2	109,967,669	105,133,088	4,834,581
Priority 3	91,357,756	62,711,119	18,646,637*
Priority 4	46,017,241	24,221,790	21,795,451
Total	330,241,370	267,091,985	53,149,385

*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 **14** ERDF projects. Excluding Technical Assistance, this represents nearly **8%** of the total number of 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 **8.80%** of the approved grant figure for those projects. However, in seeking to estimate the potential levels of underspend that might be identified over the next two years, it should be noted that regulations governing ERDF grant **paid into** loan/equity funds does not allow this grant to be easily recycled. Although this may reduce the level of underspends that will accrue to the programme the MA decided to capitalise the high value VC funds in tranches to minimise this risk. .
- 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 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 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.
- 2.5 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 on-going 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.
- 2.6 Another important feature of the LUPS ERDF Programme 2007 - 2013 has been the genuine partnership nature of its implementation. In addition to having a good cross-section of partnership bodies represented on Programme Committees and Advisory Groups and a large representative attendance at various IAB workshops, it can also be seen in the spread of grant approvals in the Programme to date. **Figure 4** below provides a breakdown of ERDF Approvals by the Lead Sponsor Organisation type as defined on the EUROSYS management system. It should also be noted that many of these approved applications are multi-agency in design and have partnership between different organisations and between different geographical areas at the heart of their delivery.

Figure 4: Breakdown of ERDF Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved*	ERDF Grant Approved (£)	% of ERDF Grant Approved
Central Government Departments/Agencies	11	29,941,478	11.21%
Communities Scotland Network	0	0	0.00%
Further Education	10	8,385,587	3.14%
Higher Education	49	48,127,902	18.02%
Local Authority	53	40,219,426	15.06%
Local Economic Bodies	11	13,982,610	5.24%
Other	15	14,242,981	5.33%
SE/HIE Network	15	97,655,106	36.56%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	8	7,442,677	2.79%
Voluntary Sector	12	7,094,218	2.65%
Total	184	267,091,985	100.00%

*Excluding Technical Assistance Projects

- 2.7 The attached **Annex 4(i)** shows that of the ERDF commitments already made, there is a good spread of activity between those Priority Theme indicators which are clearly aligned to promoting the Lisbon objectives of innovation and economic growth. For example, the strong performances in Priorities 1 & 2 help explain why the indicators 'Other investment in firms', 'Assistance to R&TD, particularly in SME's (including access to R&TD services in research centres)', 'R&TD activities in research centres' and 'Advanced support services for firms and groups of firms' account for over 56% of all committed ERDF resources. The approval of the JESSICA Holding Fund has increased the percentage of ERDF resources committed to 'Integrated projects for urban and rural regeneration' to over 20%.
- 2.8 In assessing the Programme from the perspective of the principal economic sectors targeted by project sponsors, it can be seen that although over 46% of resources have been allocated to 'Other unspecified services', grant has also been awarded to a good cross-section of other sectors. These include 'Activities linked to the environment' (14%), 'Financial intermediation' (12%), Real estate, renting and business activities (5%) and 'Human health activities' (4%).
- 2.9 From a location dimension nearly 59% of the ERDF resources are classified by applicants as being delivered on a LUPS Programme-area basis with the remainder principally being targeted at South Western Scotland (21%) and Eastern Scotland (17%).
- 2.10 In summary, the data included in **Annex 4(i)** points to a number of characteristics regarding implementation of the ERDF Programme to date:
- the support of large, national schemes such as the SDB and the venture capital funds aimed at promoting economic development throughout the Programme area;
 - the approval the JESSICA Holding Fund for investment in the 13 spatially targeted local authority areas in Priority 3;
 - the support of projects particularly in Priority 1 which seek to establish genuine partnerships between institutions across the Programme area;

- a concentration of resources in those geographical areas where there are either Community Planning Partnerships (CPP's) in existence or centres of excellence in other disciplines; and,
- although able to benefit from nationally run schemes there has been a low level of resources specifically targeted at rural areas.

2.11 PRIORITY 1: RESEARCH AND INNOVATION

Figure 5: 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%	32.541%	36.738%

Figure 6: 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	10,050	91%	402%	5,851	46%	234%
Number of research networks/ collaborations supported	600	1,868	91%	311%	1,102	46%	184%
Number of renewable energy projects supported	150	556	91%	371%	185	46%	123%

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	2,079	91%	115%	458	46%	25%
Increase in turnover by supported enterprises (£m)	150	390	91%	260%	37	46%	25%
Number of new products and services developed by supported research networks	900	917	91%	102%	161	46%	18%
Number of gross jobs created	6,100	5,590	91%	92%	768	46%	13%
Number of net new jobs created	*	*	91%	*	*	46%	*
Increase in research/ innovation expenditure by supported enterprises	*	*	91%	*	*	46%	*

*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 **91%** of the available budget has been allocated to 61 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.

There is currently **£7,872,716** ERDF grant available in Priority 1 from the original allocation to support new activity.

2.12 PRIORITY 2: ENTERPRISE GROWTH

Figure 7: 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%	39.456%	39.191%

Figure 8: 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	8,543	96%	3,417%	3,269	38%	1,308%
Number of individuals/ enterprises receiving advice/ consultancy	11,600	40,774	96%	351%	25,054	38%	216%
Number of enterprises receiving support for e-commerce	5,700	6,301	96%	111%	4,504	38%	79%
Number of enterprises receiving support for energy-saving and resource efficiency	5,700	3,456	96%	61%	2,685	38%	47%

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	1,248	96%	891%	538	38%	384%
Number of new business starts	5,500	11,688	96%	213%	7,343	38%	134%
Number of e-commerce strategies developed	4,100	2,699	96%	66%	1,427	38%	35%

Number of enterprises implementing environmental audits and energy-saving/resource efficiency systems	4,100	1,912	96%	47%	758	38%	18%
Number of gross jobs created	13,600	25,716	96%	189%	9,591	38%	71%
Number of net new jobs created	*	*	96%	*	*	38%	*
Gross value added in supported enterprises	*	*	96%	*	*	38%	*

* 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 nearly **96%** of the available budget has been allocated to 44 projects. Of the £105.13m 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 including support to local authorities to complement business gateway activity. However, due to the concentration of resources on VCLF activity, a majority of the awards have gone to the SE/HIE Network.

There is currently **£4,834,581** ERDF grant available in Priority 2 from the original allocation to support new activity.

2.13 PRIORITY 3: URBAN REGENERATION

Figure 9: 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%	40.526%	43.720%

Figure 10: 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	126	69%	420%	95	39%	317%
Number of ICT and e-learning facilities supported	40	77	69%	192%	44	39%	110%
Number of childcare and other community facilities supported	30	64	69%	213%	12	39%	40%

Number of transport hub projects supported	25	15	69%	60%	0	39%	0%
Area of business space created or modified (m ²)	7,500	20,891	69%	279%	794	39%	11%
Number of renewable energy and resource/energy-efficiency projects supported	90	4	69%	4%	1	39%	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	18,797	69%	2,892%	8,514	39%	1,310%
Increase in the number of individuals gaining employment through supported e-learning/ ICT facilities	650	2,037	69%	313%	684	39%	105%
Increase in the number of individuals gaining employment through supported childcare/ community facilities	500	884	69%	177%	0	39%	0%
Number of enterprises supported	1,100	1,818	69%	165%	720	39%	65%
Number of social enterprises supported	350	115	69%	33%	35	39%	10%
Number of gross jobs created	4,500	6,446	69%	143%	905	39%	20%
Time saved per journey (journey time x freight/ passenger volume)	*	*	69%	*	*	39%	*
Increase in share of energy from renewable resources in supported areas	*	*	69%	*	*	39%	*
Number of net new jobs created	*	*	69%	*	*	39%	*

* 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 nearly **69%** of the available budget being allocated to 43 projects. It is however surprising that despite the relatively 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 organisation, 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.

There is currently **£18,646,637** ERDF grant available in Priority 3 from the original allocation to support new activity.

2.14 PRIORITY 4: RURAL DEVELOPMENT

Figure 11: 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%	39.291%	37.467%

Figure 12: 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	8,318	53%	594%	5,841	12%	417%
Number of e-learning/ childcare and other community facilities supported	40	68	53%	170%	1	12%	2%
Area of business space created or modified (m ²)	2,400	62,674	53%	2,611%	279	12%	12%
Number of educational access projects supported	20	19	53%	95%	1	12%	5%
Number of local transport projects supported	20	16	53%	80%	1	12%	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	368	53%	40%	80	12%	9%
Number of enterprises introducing new supply and production processes	910	425	53%	47%	90	12%	10%
Number of enterprises benefiting from supported facilities	900	768	53%	85%	120	12%	13%
Occupancy rates of business space by the end of the Programme	90%	90%	53%	100%	0%	12%	0%
Number of gross jobs created	1,400	1,846	53%	132%	1,031	12%	74%
Number of enterprises accessing higher and further education research/ training resources	*	*	53%	*	*	12%	*

Time saved per journey (journey time x freight/ passenger volume)	*	*	53%	*	*	12%	*
Increase in gross value added per employee in supported enterprises	*	*	53%	*	*	12%	*
Number of net new jobs created	*	*	53%	*	*	12%	*
Increase in turnover in supported enterprises	*	*	53%	*	*	12%	*
Increase in gross value added in supported enterprises	*	*	53%	*	*	12%	*

* 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 nearly **53%** of the available budget being allocated to only 36 projects. Despite the low relatively low level of interest the indicators for 'Area of business space created or modified (m2)' and 'Number of Enterprises Supported' are 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.

There is currently **£21,795,451** ERDF grant available in Priority 4 from the original allocation to support new activity.

3. Implementation of the ESF Programme

Figure 13: 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	194	269,762,831	108,369,760	192,672,796	78,513,381
Priority 2: Progressing through Employment	61	115,812,753	49,709,495	52,127,325	21,939,508
Priority 3: Improving Access to Lifelong Learning	26	25,280,261	10,842,633	19,565,183	8,212,873
Priority 4: Technical Assistance	4	6,040,596	3,020,298	2,802,731	1,401,365
Priority 5: Strategic Skills Pipeline	32	168,665,591	63,410,131	109,545	41,570
Total	317	585,562,032	235,352,317	267,277,580	110,108,697

*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 14: 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%	40.193%	41.196%

- 3.1 A review of progress to date in the ESF Programme indicates grant allocations totalling nearly **97%** of the available programme allocation having been committed. The overall level of ESF grant committed to projects to date is **£235,352,317** and ESF grant to the value of **£110,108,697** 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 will enable significantly more activity to be supported. Excluding Technical Assistance, there is approximately **£4,766,536** ESF grant remaining to be allocated. This is split between the four operational priorities as below

Figure 15: Remaining ESF Grant

Priority	Approved Grant Allocation (£)	Approved Commitments (£)	Grant Remaining (£)
Priority 1	114,932,871	108,369,760	6,563,111
Priority 2	53,918,826	49,709,495	4,209,331
Priority 3	12,135,928	10,842,633	1,293,295
Priority 5	56,110,930	63,410,131	-7,299,201
Total	237,098,555	232,332,019	4,766,536

- 3.2 To date, final grant claims have been processed on **134** ESF projects. Excluding Technical Assistance, this represents nearly **43%** of the total number of 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 **13.22%** of the approved grant figure for those projects. 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 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 affect those approved projects in ESF Priority 5 - Strategic Skills Pipeline where sponsors are yet to finalise all aspects of the project implementation. The approval of projects by Ministers in ESF Priority 5 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.
- 3.4 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.
- 3.5 Another important feature of the LUPS ESF Programme 2007 - 2013 has been the genuine partnership nature of its implementation. In addition to having a good cross-section of partnership bodies represented on Programme Committees and Advisory Groups and a large representative attendance at various IAB workshops, it can also be seen in the spread of grant approvals in the Programme to date. **Figure 16** below provides a breakdown of ESF Approvals by the Lead Sponsor Organisation type as defined on the EUROSYS management system. It should also be noted that many of these approved applications are multi-agency in design and have partnership between different organisations and between different geographical areas at the heart of their delivery.

Figure 16: Breakdown of ESF Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved*	ESF Grant Approved (£)	% of ESF Grant Approved
Central Government Departments/Agencies	12	56,648,477	24.38%
Communities Scotland Network	0	0	0.00%
Further Education	77	23,314,351	10.03%
Higher Education	3	513,690	0.23%
Local Authority	54	82,340,535	35.44%
Local Economic Bodies	27	11,450,013	4.93%
Other	14	15,912,450	6.85%
SE/HIE Network	0	0	0.00%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	0	0	0.00%
Voluntary Sector	126	42,152,503	18.14%
Total	313	232,332,019	100.00%

*Excluding Technical Assistance Projects

- 3.6 The attached **Annex 4(ii)** shows that of the ESF commitments already made, there is a high concentration on those Priority Theme indicators which target the most disadvantaged and furthest from the labour market. For example, the strong performances in Priorities 1 & 5 help explain why the indicators “Pathways to integration and re-entry into employment for disadvantaged people; combating discrimination in accessing and progressing in the labour market and promoting acceptance of diversity in the workplace’ and ‘Implementing active and preventive measures on the labour market’ account for 71% of all ESF commitments.
- 3.7 In assessing the Programme from the perspective of the principal economic sectors targeted by project sponsors, it can be seen that although nearly 39% of resources have been allocated to ‘Other unspecified services’. Significant grant has also been awarded to other economic sectors, particularly ‘Education’ (37%) and ‘Social work, community, social and personal services’ (15%),
- 3.8 From a location dimension over 40% of the ESF resources are classified by applicants as being delivered on a LUPS Programme-area with the remainder principally being targeted at South Western Scotland (43%) and Eastern Scotland (16%). Of this remainder, there is a good geographical spread across the Programme area principally due to the funding of the thirteen CPP’s in Priorities 1 & 5.
- 3.9 In summary, the data included in **Annex 4(ii)** points to a number of characteristics regarding implementation of the ESF Programme to date:
- the support of large schemes such as the Scottish Government Modern Apprenticeship programme and those run by national organisations which aim to promote economic development or address disadvantage throughout the Programme area or in multiple geographical areas;
 - the support of projects which seek to establish genuine partnerships between institutions across the Programme area;
 - a concentration of resources in those geographical areas where there are either Community Planning Partnerships (CPP’s) in existence or training centres operated by national organisations; and,
 - although able to benefit from nationally run schemes there has been a very low level of ESF resources specifically targeted at rural areas.

3.10 *PRIORITY 1: PROGRESSING INTO EMPLOYMENT*

Figure 17: 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%	40.172%	40.750%

Figure 18: 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	150,186	94%	187%	136,537	68%	170%
Number of participants with multiple deprivations (i.e. those who qualify for 2 or more of the target groups)	39,900	116,295	94%	291%	105,432	68%	264%
Number of participants in the NEET group	8,100	39,544	94%	488%	30,363	68%	375%
Number of participants with disabilities or health difficulties	16,200	35,440	94%	219%	30,177	68%	186%

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	43,401	94%	164%	24,283	68%	92%
Number of participants entering education or training	26,400	35,311	94%	134%	17,451	68%	66%
Number of participants gaining a partial (i.e. a completed unit towards a full qualification) or full qualification	39,600	64,859	94%	164%	22,876	68%	58%
Number of participants in employment six months after leaving	13,200	30,778	94%	233%	9,776	68%	74%
Number of participants who progress towards employment	*	*	94%	*	*	68%	*
Net number of participants entering employment	*	*	94%	*	*	68%	*

* 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 **94%** of the available revised budget is currently still allocated to 194 projects. 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 approved projects is so high in comparison with the approved Programme targets. These are:

- a lower grant intervention rate being required per project (40.17% 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.

In reviewing the participant characteristics of the commitments to date in Priority 1 (**Annex 5 Page 1**), nearly 86% of the participants are targeted at addressing four prime target groups. These are:

- the unemployed
- the economically inactive
- Young people (NEET)
- people with disabilities

Amongst the secondary target groups the four with the biggest participant numbers totalling nearly 41% are:

- a lack of work experience
- No qualifications
- the economically inactive
- Young people (NEET)

Of the total participants identified on the currently approved commitments in Priority 1, nearly 58% are forecast to be male and 42% female. In addition, over 57% of the identified participants are in the three age categories below the age of 24. Nearly 87% of the participants are defined in ethnic terms as White (Scottish).

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.

There is currently **£6,563,111** ESF grant available in Priority 1 from the original allocation to support new activity in Priority 5.

3.11 PRIORITY 2: PROGRESSING THROUGH EMPLOYMENT

Figure 19: 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%	42.922%	42.088%

Figure 20: 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	103,966	92%	236%	52,920	41%	120%
Number of male participants without basic skills	7,440	9,294	92%	125%	5,937	41%	80%
Number of female participants without basic skills	7,440	7,767	92%	104%	5,367	41%	72%
Number of male participants without level 2 skills	6,480	13,476	92%	208%	4,726	41%	73%
Number of female participants without level 2 skills	6,480	9,924	92%	153%	4,783	41%	74%
Number of male participants without level 3 skills	2,800	23,681	92%	846%	9,485	41%	339%
Number of female participants without level 3 skills	2,800	17,745	92%	634%	5,671	41%	203%
Number of women in projects addressing better gender balance	2,640	3,260	92%	123%	1,773	41%	67%
Number of men in projects addressing better gender balance	880	1,2744	92%	145%	672	41%	76%
Number of participants in projects addressing entrepreneurial and managerial skills	3,520	23,795	92%	676%	4,503	41%	128%
Number of participants from social enterprises	3,520	5,999	92%	170%	2,089	41%	59%

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	71,813	92%	449%	11,890	41%	74%
Number of male participants gaining basic skills	2,960	4,595	92%	155%	1,943	41%	66%
Number of female participants gaining basic skills	2,960	4,712	92%	159%	2,118	41%	72%
Number of male participants gaining level 2 skills	2,000	17,546	92%	877%	2,739	41%	137%
Number of female participants gaining level 2 skills	2,000	13,127	92%	656%	2,807	41%	140%
Number of male participants gaining level 3 or above skills	560	17,893	92%	3195%	1,388	41%	248%
Number of female participants gaining level 3 or above skills	560	13,919	92%	2,486%	1,477	41%	264%

Number of women going into gender-imbalanced sectors	1,584	2,834	92%	179%	1,571	41%	99%
Number of men going into gender-imbalanced sectors	528	955	92%	181%	274	41%	52%
Number of entrepreneurs and new managers gaining a partial or full qualification	2,480	6,584	92%	265%	1,012	41%	41%
Number of participants from social enterprises completing a partial or full qualification	2,480	2,329	92%	94%	866	41%	35%
Number of participants who progress into more secure or better-skilled employment	*	*	92%	*	*	41%	*
Number of companies benefiting from improved skills training	*	*	92%	*	*	41%	*
Number of social enterprises benefiting from improved skills training	*	*	92%	*	*	41%	*

* 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 **92%** 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 (42.92% 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.

In reviewing the participant characteristics of the commitments to date in Priority 2 (**Annex 2, Page 2**), over 97% of the participants are targeted at people in employment.

Amongst the secondary target groups the four with the biggest participant numbers totalling over 64% are:

- No qualifications
- Literacy and numeracy
- Lack of work experience
- Ethnic minority

Of the total participants identified on the currently approved commitments in Priority 2, nearly 57% are forecast to be male and 43% female. In addition, over 57% of the identified participants are in the two age categories between 25 and 50. Over 75% of the participants are defined in ethnic terms as White (Scottish).

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.

There is currently **£4,209,331** ESF grant available in Priority 2 from the original allocation to support new activity in Priority 5.

3.12 PRIORITY 3: IMPROVING ACCESS TO LIFELONG LEARNING

Figure 21: 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%	42.890%	41.977%

Figure 22: 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	89%	107%	2,459	68%	141%
Number of projects supporting the development of new courses/materials or innovative approaches to learning	42	575	89%	1,369%	494	68%	1,176%
Number of local learning centres/ access points/ workplace initiatives supported	245	570	89%	233%	362	68%	148%

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	89%	138%	697	68%	62%
Number of new courses/materials developed	550	1,202	89%	219%	1,215	68%	221%
Number of participants benefiting from support	6,300	35,933	89%	570%	32,303	68%	513%
Number of participants completing a partial or full qualification as a result of supported projects	*	*	89%	*	*	68%	*

* 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 fairly weak interest in this Priority and after a number of recent de-commitments and changes to approved budgets over **89%** 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.

In reviewing the participant characteristics of the commitments to date in Priority 3 (**Annex 5 Page 3**), nearly 96% of the participants are targeted at addressing four prime target groups. These are:

- the economically inactive
- Employed
- No qualifications
- people with disabilities

Amongst the secondary target groups the four with the biggest participant numbers totalling over 78% are:

- Unemployed
- No qualifications
- Literacy and numeracy
- Lack of work experience

Of the total participants identified on the currently approved commitments in Priority 3, over 44% are forecast to be male and nearly 56% female. In addition, over 85% of the identified participants are in the three age categories between 25 and 54. Nearly 95% of the participants are defined in ethnic terms as White (Scottish).

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.

There is currently **£1,293,295** ESF grant available in Priority 3 from the original allocation to support new activity in Priority 5.

3.13 PRIORITY 5: STRATEGIC SKILLS PIPELINE

Figure 23: 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%	37.595%	37.948%

Figure 24: 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	62,891	113%	222%	343	0%	1%
Number of participants with multiple deprivations	15,100	45,953	113%	304%	144	0%	1%
Number of participants in the NEET group	4,700	17,462	113%	372%	33	0%	1%
Number of participants with disabilities or health difficulties	6,400	6,638	113%	104%	41	0%	1%
Number of male participants without basic skills	6,100	3,830	113%	63%	32	0%	1%
Number of female participants without basic skills.	6,100	3,425	113%	56%	60	0%	1%
Number of male participants without level 2 skills	3,800	3,376	113%	89%	39	0%	1%
Number of female participants without level 2 skills	3,800	3,707	113%	98%	49	0%	1%
Number of male participants without level 3 skills	1,900	2,701	113%	142%	39	0%	2%
Number of female participants without level 3 skills	1,900	3,184	113%	168%	70	0%	4%
Number of women in projects addressing better gender balance	900	913	113%	101%	0	0%	0%
Number of men in projects addressing better gender imbalance	300	271	113%	90%	0	0%	0%
Number of participants in projects addressing entrepreneurial managerial skills	2400	435	113%	18%	0	0%	0%
Number of participants from social enterprises	400	123	113%	31%	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	17,265	113%	278%	44	0%	1%
Number of participants entering education or training	5,700	10,959	113%	192%	170	0%	3%
Number of (previously non-employed) participants in employment six months after leaving.	3,200	10,817	113%	338%	0	0%	0%
Number of participants gaining a full qualification	8,500	17,003	113%	200%	0	0%	0%
Number of participants gaining a partial qualification	5,700	8,197	113%	144%	0	0%	0%
Number of male participants gaining basic skills	3,500	3,639	113%	104%	0	0%	0%
Number of female participants gaining basic skills	3,500	3,910	113%	112%	0	0%	0%
Number of male participants gaining level 2 skills	2,000	2,734	113%	137%	0	0%	0%
Number of female participants gaining level 2 skills	2,000	3,110	113%	155%	0	0%	0%
Number of male participants gaining level 3 or above skills	300	1,448	113%	483%	0	0%	0%
Number of female participants gaining level 3 or above skills	300	1,812	113%	604%	0	0%	0%
Number of women going into gender-imbalanced sectors	500	46	113%	9%	0	0%	0%
Number of men going into gender-imbalanced sectors	200	225	113%	112%	0	0%	0%
Number of entrepreneurs and new managers gaining a full qualification	600	90	113%	15%	0	0%	0%
Number of entrepreneurs and new managers gaining a partial qualification	500	126	113%	25%	0	0%	0%
Number of participants from social enterprises gaining a full qualification	100	34	113%	34%	0	0%	0%
Number of participants from social enterprises gaining a partial qualification	100	47	113%	47%	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 **113%** of the available budget has been allocated to 32 projects. Of the £63.4m grant committed to date, a total of £32.735m is comprised of seventeen awards to local CPP networks with the balance being delivered through four strategic bids.

As a consequence of this high commitment level, a number of the 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. It should be noted though that not all applications are fully on the EUROSYS Management System and these figures could change.

In reviewing the participant characteristics of the commitments to date in Priority 5 (**Annex 5 Page 4**), over 92% of the participants are targeted at addressing two prime target groups. These are:

- the unemployed
- the economically inactive

Amongst the secondary target groups the four with the biggest participant numbers totalling nearly 48% are:

- Young people (NEET)
- No qualifications
- Lack of work experience
- Family/caring responsibilities

Of the total participants identified on the currently approved commitments in Priority 5, nearly 58% are forecast to be male and 42% female. In addition, over 57% of the identified participants are in the three age categories below the age of 24. Over 89% of the participants are defined in ethnic terms as White (Scottish).

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 coupled with a more pro-active approach to project development are aimed at resolving previous difficulties in meeting timeously the expenditure targets. 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 is forecast that the 2011 N+2 targets for both the ERDF and ESF Programmes will be achieved and good progress is being made towards the 2012 target. 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.

- 4.4 In demonstrating the progress made by the IAB to achieve the N+2 target for 2011 and to highlight the key priorities over the coming months, the attached **Annexes 3 (i) and 3 (ii)** detail the latest position regarding the processing of grant claims and the completion of verification visits as specified in the agreed Management and Control Strategy. With regard to **Annex 3 (i)**, it can be seen that the level of ERDF grant included in processed grant claims represents 90% of the profiled level of forecast expenditure to 31 December 2011 on approved projects. This high figure can be explained by payment of the entire grant to help establish the JESSICA Holding Fund. With regard to the ESF Programme, over 71% of the profiled expenditure to 31 December 2011 on approved projects has been processed in grant claims. As can be seen in the earlier part of this report with regard to identified underspends, not all the originally profiled ERDF and ESF expenditure will be translated into actual expenditure within the original timescales. However, a key priority for the IAB is to ensure that all valid expenditure is efficiently processed in grant claims and that any changes in the value of approved applications are quickly quantified and supported by valid Notification of Change forms. To this end the IAB are in regular contact with project sponsors to ensure that claims are submitted timeously. In **Annex 3 (ii)** it can be seen that at least 1,553 processed grant claims with expenditure in both Programmes have received a 20% verification check from the IAB in line with the agreed Management and Control Strategy. Clearly, these figures will change on a daily basis as new claims are submitted by sponsors that will then require a verification check. However, at the time of writing the number of grant claims where a 20% check had not yet been completed stood at 100 over both Programmes. As a result of all the verification work undertaken on processed grant claims, it is also reassuring to note that the current level of potential irregular expenditure being identified through the Stage 1 expenditure checks which require follow-up from the ERDF and ESF Managing Authorities is low. It equates to 0.72% for the ERDF Programme and 2.98% for the ESF Programme. Verification work undertaken by the Managing Authorities and the Audit Authority through Article 60b and Article 62 respectively also appear to be confirming low levels of ineligible expenditure in the Programmes.

5. LUPS/ERDF/2009/3/1/0290 – Edinburgh Climate Change Centre (ECCC)

- 5.1 This Committee is asked to formally agree a change in lead sponsor for the above revenue project. It was originally endorsed by this Committee on 17 March 2010. An approval letter was subsequently issued to Edinburgh Napier University as the lead sponsor, although it is a collaborative project with Heriot-Watt University and the University of Edinburgh. To date only one expenditure claim has been processed. The project aims to address systemic failures in economic development in the Lowlands and Uplands Scotland region, reflected in the low levels of innovation among SMEs and the low levels of enterprise formation. It aims to establish an innovation supply chain to bridge the gap between the region's research base, relevant live projects and its enterprise sector, with specific focus on knowledge and innovation in carbon accounting, foot-printing and monitoring in the built environment, transport and infrastructure sectors; and products and services to enhance resilience in the built environment and infrastructure sectors against climate change and rising energy prices. The project will also complement the capital project LUPS/ERDF/2011/5/1/0033 - Edinburgh Centre on Climate Change from University of Edinburgh which was endorsed by this Committee on 25 May 2011

- 5.2 However following discussions between the three institutions a request has been made by Edinburgh Napier University to change the lead sponsor of the revenue project LUPS/ERDF/2009/3/1/0290 from themselves to the University of Edinburgh. The Managing Authority is supportive of this move as it will help maximise synergy between the two projects.

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 (Pages 1 & 2)**;
- 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 (Pages 3 & 4)**;
- 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 analysis of the ERDF and ESF Programmes with regard to the progress being made by the IAB in the processing of grant claims and the completion of verification visits as specified in the agreed Management and Control Strategy. This is attached for information as **Annexes 3(i) – 3(ii)**;
- 6.1.5 Note the assessment of the ERDF and ESF Programmes that categorises all awards in line with Commission Regulation (EC) No 1828/2006 Annex II: Categorisation of Funds assistance for 2007 – 2013 and also their NUTS territorial classification code. This is attached for information as **Annexes 4(i) – 4(ii)**;
- 6.1.6 Note the participant analysis in the ESF Programme to date as detailed in attached **Annex 5**; and,
- 6.1.7 agree the change in lead sponsor for LUPS/ERDF/2009/3/1/0290 – Edinburgh Climate Change Centre (ECCC) from Edinburgh Napier University to the University of Edinburgh as detailed in Section 5.

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OCTOBER 2011