



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 2010 and future years. This is attached as **Annex 2**.
- 1.2 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 3(i) – 3(ii)**.
- 1.3 The Committee is also asked to note the change in lead sponsor in two previously approved ERDF projects. These are 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 (£)
1st Challenge Round	42	220,561,715	62,766,858	29,078,110	11,412,078
2nd Challenge Round	39	160,261,155	63,667,922	28,222,621	11,278,957
SDB	2	44,444,373	19,999,967	6,091,017	2,740,957
CPP**	14	36,588,175	13,550,293	2,394,232	909,013
Global Grants Body	9	10,740,445	4,193,936	967,459	368,522
Fast Track	2	6,665,343	2,232,544	0	0
Technical Assistance	4	8,411,964	4,205,982	1,490,861	745,428
Total	112	487,673,170	170,617,502	68,244,300	27,454,955

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date will change over the life of the Programme as previously announced awards to individual projects are reduced or withdrawn due to problems identified during implementation.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

** This figure includes the awards made by the Minister to extend CPP's into 2011.

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	41.32%	34.99%	40.23%

- 2.1 A review of progress to date in the ERDF Programme indicates a good start has been made with forecast grant totalling over **50%** of the available programme allocation being made after two full application rounds. The overall level of ERDF grant committed to projects to date is **£170,617,502** and ERDF grant to the value of **£27,454,955** 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 well below the approved average for the ERDF Operational Programme and if continued should enable significantly more activity to be supported.
- 2.2 Notwithstanding the good start made to the ERDF Programme overall, it should be noted that performance across all four operational priorities is mixed. Although there are high commitment levels in Priority 1 – Research and Innovation and Priority 2 – Enterprise Growth, there are 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 in the future regarding resource virement between priorities in order to maximise overall commitment levels in the Programme.
- 2.3 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.
- 2.4 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.
- 2.5 The attached **Annex 3(i)** shows that of the ERDF commitments already made, there is a high concentration on those Priority Theme indicators which are clearly aligned to promoting the Lisbon objectives of innovation and economic growth. For example, the indicators ‘Other investment in firms’, ‘Assistance to R&TD, particularly in SME’s (including access to R&TD services in research centres)’ and ‘R&TD activities in research centres’ account for nearly 63% of all committed resources.
- 2.6 In assessing the Programme from the perspective of the economic sectors targeted, it can be seen that although over 56% 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’ (10%) and ‘Human health activities’ (8%).

2.7 From a location dimension nearly 60% of the ERDF resources are classified by applicants as being delivered on a LUPS Programme-area basis with the remainder being targeted at smaller geographical areas. This data points to a number of characteristics regarding implementation 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 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.

Figure 3: 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	8	10,545,133	6.34%
Communities Scotland Network	1	274,830	0.15%
Further Education	5	5,304,133	3.19%
Higher Education	31	28,351,439	17.04%
Local Authority	23	17,290,575	10.39%
Local Economic Bodies	8	11,633,992	6.99%
Other	10	12,298,794	7.39%
SE/HIE Network	8	72,903,034	43.81%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	6	3,520,469	2.12%
Voluntary Sector	8	4,289,121	2.58%
Total	108	166,411,520	100.00%

*Excluding Technical Assistance Projects

2.8 PRIORITY 1: RESEARCH AND INNOVATION

Figure 4: Cumulative Summary of Financial Performance in Priority 1 to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
1st Challenge Round	18	121,173,283	23,982,094	8,358,681	2,727,917
2nd Challenge Round	23	55,488,739	22,846,596	2,866,197	1,138,387
SDB	2	44,444,373	19,999,967	6,091,017	2,740,957
CPP	N/A	N/A	N/A	N/A	N/A
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Fast Track	N/A	N/A	N/A	N/A	N/A
Total	43	221,106,395	66,828,657	17,315,895	6,607,261

*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 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	37.29%	30.22%	38.16%

Figure 6: Breakdown of ERDF Priority 1 Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved	ERDF Grant Approved (£)	% of ERDF Grant Approved
Central Government Departments/Agencies	2	7,334,181	10.97%
Communities Scotland Network	0	0	0.00%
Further Education	1	379,921	0.57%
Higher Education	26	25,793,257	38.60%
Local Authority	1	459,502	0.69%
Local Economic Bodies	1	2,366,876	3.54%
Other	7	9,297,242	13.91%
SE/HIE Network	2	19,999,967	29.93%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	0	0	0.00%
Voluntary Sector	3	1,197,711	1.79%
Total	43	66,828,657	100.00%

Figure 7: 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	6,777	81%	271%	1,707	8%	68%
Number of research networks/ collaborations supported	600	1,033	81%	172%	283	8%	47%
Number of renewable energy projects supported	150	298	81%	199%	44	8%	29%

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	1,578	81%	88%	49	8%	3%
Increase in turnover by supported enterprises (£m)	150	271	81%	181%	9	8%	6%
Number of new products and services developed by supported research networks	900	551	81%	61%	30	8%	3%
Number of gross jobs created	6,100	4,535	81%	74%	192	8%	3%
Number of net new jobs created	*	*	81%	*	*	8%	*
Increase in research/ innovation expenditure by supported enterprises	*	*	81%	*	*	8%	*

*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 **81%** of the available budget has been allocated to 43 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 combined with the average ERDF grant intervention rate for these commitments being significantly below the approved average for Priority 1 has resulted in some 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 **£16,070,047** ERDF grant available in Priority 1 from the original allocation for new applications.

2.9 PRIORITY 2: ENTERPRISE GROWTH

Figure 8: Cumulative Summary of Financial Performance in Priority 2 to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
1st Challenge Round	19	91,055,685	35,742,479	16,994,236	7,370,669
2nd Challenge Round	10	86,451,309	34,482,490	25,302,003	10,120,729
SDB	N/A	N/A	N/A	N/A	N/A
CPP	N/A	N/A	N/A	N/A	N/A
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Fast Track	1	2,387,999	955,200	0	0
Total	30	179,894,993	71,180,169	42,296,239	17,491,398

*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 9: 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	40.00%	39.57%	41.35%

Figure 10: Breakdown of ERDF Priority 2 Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved	ERDF Grant Approved (£)	% of ERDF Grant Approved
Central Government Departments/Agencies	2	1,048,537	1.47%
Communities Scotland Network	0	0	0.00%
Further Education	1	254,566	0.36%
Higher Education	4	2,049,253	2.88%
Local Authority	6	2,793,792	3.92%
Local Economic Bodies	6	9,178,444	12.89%
Other	2	1,891,113	2.66%
SE/HIE Network	4	52,203,067	73.34%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	2	423,630	0.60%
Voluntary Sector	3	1,337,767	1.88%
Total	30	71,180,169	100.00%

Figure 11: 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	6,535	65%	2,614%	473	16%	189%
Number of individuals/ enterprises receiving advice/ consultancy	11,600	37,906	65%	327%	5,808	16%	50%
Number of enterprises receiving support for e-commerce	5,700	6,124	65%	107%	783	16%	14%
Number of enterprises receiving support for energy-saving and resource efficiency	5,700	4,094	65%	72%	237	16%	4%

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	106.75	65%	76%	6.65	16%	5%
Number of new business starts	5,500	9,442	65%	172%	1,476	16%	27%
Number of e-commerce strategies developed	4,100	3,198	65%	78%	302	16%	7%
Number of enterprises implementing environmental audits and energy-saving/ resource efficiency systems	4,100	2,232	65%	54%	32	16%	1%
Number of gross jobs created	13,600	19,075	65%	140%	1,898	16%	14%
Number of net new jobs created	*	*	65%	*	*	16%	*
Gross value added in supported enterprises	*	*	65%	*	*	16%	*

* 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 **65%** of the available budget has been allocated to 30 projects. Of the £71.18m grant committed to date, a total of £52.66m is comprised of three awards to support risk capital funds in order to promote investment in SMEs in the Programme Area. These are the Scottish Co-investment Fund, the Scottish Venture 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 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, over 73% of the awards have gone to the SE/HIE Network.

There is currently **£38,787,500** ERDF grant available in Priority 2 from the original allocation for new applications.

2.10 PRIORITY 3: URBAN REGENERATION

Figure 12: Cumulative Summary of Financial Performance in Priority 3 to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
1st Challenge Round	1	221,680	88,672	29,769	11,908
2nd Challenge Round	2	4,812,280	1,553,844	0	0
SDB	N/A	N/A	N/A	N/A	N/A
CPP**	14	36,588,175	13,550,293	2,394,232	909,013
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Fast Track	1	4,277,344	1,277,344	0	0
Total	18	45,899,479	16,470,153	2,424,001	920,921

*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.

** This figure includes the awards made by the Minister to extend CPP's into 2011. Please note that North Ayrshire Council have separate capital and revenue projects.

Figure 13: 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	48.00%	35.88%	37.99%

Figure 14: Breakdown of ERDF Priority 3 Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved	ERDF Grant Approved (£)	% of ERDF Grant Approved
Central Government Departments/Agencies	0	0	0.00%
Communities Scotland Network	1	274,830	1.67%
Further Education	1	1,277,344	7.76%
Higher Education	0	0	0.00%
Local Authority	13	12,439,854	75.53%
Local Economic Bodies	1	88,672	0.53%
Other	1	1,110,439	6.74%
SE/HIE Network	0	0	0.00%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	0	0	0.00%
Voluntary Sector	1	1,279,014	7.77%
Total	18	16,470,153	100.00%

Figure 15: 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	84	18%	280%	20	1%	67%
Number of ICT and e-learning facilities supported	40	88	18%	220%	27	1%	67%
Number of childcare and other community facilities supported	30	79	18%	263%	3	1%	10%
Number of transport hub projects supported	25	6	18%	24%	0	1%	0%
Area of business space created or modified (m ²)	7,500	28,951	18%	386%	0	1%	0%
Number of renewable energy and resource/energy-efficiency projects supported	90	18	18%	20%	1	1%	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	12,562	18%	1,933%	1,432	1%	220%
Increase in the number of individuals gaining employment through supported e-learning/ ICT facilities	650	2,320	18%	357%	23	1%	4%
Increase in the number of individuals gaining employment through supported childcare/ community facilities	500	917	18%	183%	0	1%	0%
Number of enterprises supported	1,100	2,046	18%	186%	59	1%	5%
Number of social enterprises supported	350	232	18%	66%	15	1%	4%
Number of gross jobs created	4,500	1,358	18%	30%	215	1%	5%
Time saved per journey (journey time x freight/ passenger volume)	*	*	18%	*	*	1%	*
Increase in share of energy from renewable resources in supported areas	*	*	18%	*	*	1%	*
Number of net new jobs created	*	*	18%	*	*	1%	*

* 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 relatively low level of interest in this Priority to date with only **18%** of the available budget being allocated to only 18 projects. Of the projects supported to date, fourteen are from the approved Community Planning Partnerships and only four came through the challenge fund route. In addition to the IAB doing additional work with the partnership highlighting the scope of what can be funded through this Priority in order to stimulate interest, the current progress being made on the establishment of a JESSICA fund in the LUPS area and the recently agreed scope changes should also greatly assist the level of grant allocation in the future. This has already been noticed in the higher number of potential projects being submitted in the third application round. 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. However, the CPP proposals in respect of ERDF are highly focused on job brokerage, ICT and incubation facilities.

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 organising, resourcing and leading many Community Planning Partnerships.

A figure of £35m has already been ring-fenced (although not yet formally approved by ministers) for the forthcoming JESSICA Fund and associated infrastructure projects.

As a result, there is currently **£39,887,603** ERDF grant available in Priority 3 from the original allocation for new applications.

2.11 *PRIORITY 4: RURAL DEVELOPMENT*

Figure 16: Cumulative Summary of Financial Performance in Priority 4 to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
1st Challenge Round	4	8,111,067	2,953,613	3,695,424	1,301,584
2nd Challenge Round	4	13,508,827	4,784,992	54,421	19,841
SDB	N/A	N/A	N/A	N/A	N/A
CPP	N/A	N/A	N/A	N/A	N/A
Global Grants Body	9	10,740,445	4,193,936	967,459	368,522
Fast Track	N/A	N/A	N/A	N/A	N/A
Total	17	32,360,339	11,932,541	4,717,304	1,689,947

*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 17: 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	40.00%	36.87%	35.82%

Figure 18: Breakdown of ERDF Priority 4 Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved	ERDF Grant Approved (£)	% of ERDF Grant Approved
Central Government Departments/Agencies	4	2,162,415	18.12%
Communities Scotland Network	0	0	0.00%
Further Education	2	3,392,302	28.43%
Higher Education	1	508,929	4.27%
Local Authority	3	1,597,427	13.39%
Local Economic Bodies	0	0	0.00%
Other	0	0	0.00%
SE/HIE Network	2	700,000	5.87%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	4	3,096,839	25.95%
Voluntary Sector	1	474,629	3.97%
Total	17	11,932,541	100.00%

Figure 19: 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	7,222	26%	516%	61	4%	4%
Number of e-learning/ childcare and other community facilities supported	40	52	26%	130%	0	4%	0%
Area of business space created or modified (m ²)	2,400	39,976	26%	1,666%	0	4%	0%
Number of educational access projects supported	20	6	26%	30%	1	4%	5%
Number of local transport projects supported	20	6	26%	30%	0	4%	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 new marketing initiatives	910	298	26%	33%	19	4%	2%
Number of enterprises introducing new supply and production processes	910	589	26%	65%	39	4%	4%
Number of enterprises benefiting from supported facilities	900	1,356	26%	151%	23	4%	3%
Occupancy rates of business space by the end of the Programme	90%	90%	26%	100%	0%	4%	0%
Number of gross jobs created	1,400	1,518	26%	10%	91.50	4%	7%
Number of enterprises accessing higher and further education research/ training resources	*	*	26%	*	*	4%	*
Time saved per journey (journey time x freight/ passenger volume)	*	*	26%	*	*	4%	*
Increase in gross value added per employee in supported enterprises	*	*	26%	*	*	4%	*
Number of net new jobs created	*	*	26%	*	*	4%	*
Increase in turnover in supported enterprises	*	*	26%	*	*	4%	*
Increase in gross value added in supported enterprises	*	*	26%	*	*	4%	*

* 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 **26%** of the available budget being allocated to only 17 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. However, with the GGB body fully operational and the changes to the eligible activity scope of the Priority recently being agreed by the Commission it is hoped that this will be translated into more projects being developed in future application rounds.

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 **£34,084,700** ERDF grant available in Priority 4 from the original allocation for new applications.

3. Implementation of the ESF Programme

Figure 20: 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 (£)
Shadow Round	43	17,133,981	6,739,556	15,967,808	6,058,773
1 st Challenge Round	97	94,517,619	39,387,745	29,158,452	12,215,524
2 nd Challenge Round	72	62,880,473	25,306,684	3,574,724	1,475,657
CPP**	13	127,320,369	52,405,938	10,524,593	4,509,173
Fast Track	3	9,399,596	4,229,817	0	0
Technical Assistance	4	6,040,596	3,020,298	1,078,518	539,259
Total	232	317,292,634	131,090,038	60,304,095	24,798,386

*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.

** This figure includes the awards made by the Minister to extend CPP's into 2011.

Figure 21: 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	45.11%	41.32%	41.12%

- 3.1 A review of progress to date in the ESF Programme indicates a good start has been made with forecast grant totalling nearly **54%** of the available programme allocation being approved. The overall level of ESF grant committed to projects to date is **£131,090,038** and ESF grant to the value of **£24,798,386** has been processed in valid 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 well below the approved average for the ESF Operational Programme and if continued should enable significantly more activity to be supported.
- 3.2 Notwithstanding the good start made to the ESF Programme overall, it should be noted that performance across all three operational priorities is mixed. Although there is a very high commitment level in Priority 1 - Progressing Into Employment there are low commitment levels in Priority 2 - Progressing through Employment and Priority 3 - Improving Access to Lifelong Learning. A request for virement of approximately £20m from Priority 3 to Priority 1 was recently agreed by the Commission.
- 3.3 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.

- 3.4 The attached **Annex 3(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 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 62% of all ESF commitments.
- 3.5 In assessing the Programme from the perspective of the economic sectors targeted, it can be seen that although nearly 47% of resources have been allocated to 'Other unspecified services'. Significant grant has also been awarded to other sectors, particularly 'Education' (22%) and 'Social work, community, social and personal services' (19%),
- 3.6 From a location dimension 26% of the ESF resources are classified by applicants as being delivered on a LUPS Programme-area basis with the remainder being targeted at smaller geographical areas. Of this remainder, there is a good geographical spread across the Programme area principally due to the funding of the thirteen CPP's in Priority 1. This data points to a number of characteristics regarding implementation 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.

Figure 22: 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	8	6,116,104	4.78%
Communities Scotland Network	0	0	0.00%
Further Education	60	18,420,498	14.38%
Higher Education	3	532,374	0.42%
Local Authority	29	48,070,933	37.53%
Local Economic Bodies	24	10,916,438	8.52%
Other	14	15,200,947	11.87%
SE/HIE Network	0	0	0.00%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	0	0	0.00%
Voluntary Sector	90	28,812,446	22.50%
Total	228	128,069,740	100.00%

*Excluding Technical Assistance Projects

3.7 PRIORITY 1: PROGRESSING INTO EMPLOYMENT

Figure 23: Cumulative Summary of Financial Performance in Priority 1 to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
Shadow Round	43	17,133,981	6,739,556	15,967,808	6,058,773
1 st Challenge Round	55	53,166,320	22,019,857	19,482,720	8,086,513
2 nd Challenge Round	47	37,003,054	13,975,300	2,382,211	943,172
CPP**	13	127,320,369	52,405,938	10,524,593	4,509,173
Total	158	234,623,724	95,140,651	48,357,332	19,597,631

*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.

** This figure includes the awards made by the Minister to extend CPP's into 2011.

Figure 24: 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	45.00%	40.55%	40.53%

Figure 25: Breakdown of ESF Priority 1 Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved	ESF Grant Approved (£)	% of ESF Grant Approved
Central Government Departments/Agencies	4	3,618,097	3.80%
Communities Scotland Network	0	0	0.00%
Further Education	38	8,649,079	9.09%
Higher Education	0	0	0.00%
Local Authority	20	45,525,573	47.85%
Local Economic Bodies	18	4,714,410	4.96%
Other	4	11,197,126	11.77%
SE/HIE Network	0	0	0.00%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	0	0	0.00%
Voluntary Sector	74	21,436,366	22.53%
Total	158	95,140,651	100.00%

Figure 26: 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	26,600	127,411	74%	479%	41,963	15%	158%
Number of participants with multiple deprivations (i.e. those who qualify for 2 or more of the target groups)	13,300	104,178	74%	783%	37,882	15%	285%
Number of participants in the NEET group	2,700	29,573	74%	1,095%	11,624	15%	431%
Number of participants with disabilities or health difficulties	5,400	30,122	74%	558%	8,423	15%	156%

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	8,800	41,259	74%	469%	5,467	15%	62%
Number of participants entering education or training	8,800	32,318	74%	367%	3,889	15%	44%
Number of participants gaining a partial (i.e. a completed unit towards a full qualification) or full qualification	13,200	60,421	74%	458%	4,516	15%	34%
Number of participants in employment six months after leaving	4,400	29,135	74%	662%	985	15%	22%
Number of participants who progress towards employment	*	*	74%	*	*	15%	*
Net number of participants entering employment	*	*	74%	*	*	15%	*

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

Progress to Date in Implementing Priority 1

There has been very strong interest in this Priority to date and over **74%** of the available revised budget has been allocated to 158 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 combined with the average ESF grant intervention rate for these commitments being below the approved 45% average for Priority 1 as detailed in the ESF Operational Programme, all 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. 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.

The demand for this Priority will increase strongly as the unemployment figures rise, vacancy numbers fall, and individuals find it increasingly difficult to move into a job without retraining. More support will be needed for individuals, and also for employers still willing to take those who have been out of work for more than 6 months, and to take on apprentices whose skills in sectors such as construction will still be needed in the longer term even though they may be costly to maintain in the current market.

There has been a reasonable spread of applications and resources between different organisational types in Priority 1 with six receiving some support. 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 **£33,734,402** ESF grant available in Priority 1 for new applications following the recent Commission agreement of virement from Priority 3 into Priority 1.

3.8 *PRIORITY 2: PROGRESSING THROUGH EMPLOYMENT*

Figure 27: Cumulative Summary of Financial Performance in Priority 2 to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
1st Challenge Round	29	28,342,046	12,100,117	6,428,622	2,708,020
2nd Challenge Round	11	10,689,436	4,528,347	194,812	86,132
Fast Track	3	9,399,596	4,229,817	0	0
Total	43	48,431,078	20,858,281	6,623,434	2,794,152

*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 28: 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	45.00%	43.07%	42.19%

Figure 29: Breakdown of ESF Priority 2 Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved	ESF Grant Approved (£)	% of ESF Grant Approved
Central Government Departments/Agencies	4	2,498,007	11.98%
Communities Scotland Network	0	0	0%
Further Education	13	6,130,897	29.39%
Higher Education	3	532,374	2.55%
Local Authority	6	1,965,627	9.42%
Local Economic Bodies	4	5,272,739	25.28%
Other	3	888,717	4.26%
SE/HIE Network	0	0	0%
Sector Skills Councils	0	0	0%
Tourist Organisations	0	0	0%
Voluntary Sector	10	3,569,920	17.12%
Total	43	20,858,281	100.00%

Figure 30: 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	55,000	42,932	23%	78%	7,970	3%	14%
Number of male participants without basic skills	9,300	3,742	23%	40%	1,155	3%	12%
Number of female participants without basic skills	9,300	3,431	23%	37%	1,008	3%	11%
Number of male participants without level 2 skills	8,100	4,036	23%	50%	256	3%	3%
Number of female participants without level 2 skills	8,100	3,958	23%	49%	269	3%	3%
Number of male participants without level 3 skills	3,500	7,890	23%	225%	731	3%	21%
Number of female participants without level 3 skills	3,500	7,317	23%	209%	680	3%	19%
Number of women in projects addressing better gender balance	3,300	3,256	23%	99%	724	3%	22%
Number of men in projects addressing better gender balance	1,100	1,380	23%	125%	196	3%	18%
Number of participants in projects addressing entrepreneurial and managerial skills	4,400	11,764	23%	267%	1,774	3%	40%
Number of participants from social enterprises	4,400	1,024	23%	23%	291	3%	7%

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	20,000	28,260	23%	141%	208	3%	1%
Number of male participants gaining basic skills	3,700	2,896	23%	78%	206	3%	6%
Number of female participants gaining basic skills	3,700	3,182	23%	86%	135	3%	4%
Number of male participants gaining level 2 skills	2,500	6,639	23%	266%	25	3%	1%
Number of female participants gaining level 2 skills	2,500	5,517	23%	221%	21	3%	1%
Number of male participants gaining level 3 or above skills	700	5,292	23%	756%	35	3%	5%
Number of female participants gaining level 3 or above skills	700	5,002	23%	715%	33	3%	5%
Number of women going into gender-imbalanced sectors	1,980	2,900	23%	146%	563	3%	28%
Number of men going into gender-imbalanced sectors	660	1,685	23%	255%	127	3%	19%
Number of entrepreneurs and new managers gaining a partial or full qualification	3,100	4,843	23%	156%	79	3%	3%
Number of participants from social enterprises completing a partial or full qualification	3,100	652	23%	21%	1	3%	0%
Number of participants who progress into more secure or better-skilled employment	*	*	23%	*	*	3%	*
Number of companies benefiting from improved skills training	*	*	23%	*	*	3%	*
Number of social enterprises benefiting from improved skills training	*	*	23%	*	*	3%	*

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

** An error occurred on the application form which meant that applicants were not asked to provide information on this indicator. Supplementary work will be required to establish this data.

Progress to Date in Implementing Priority 2

There has been a relatively low level of interest in this Priority to date and only **23%** of the available budget has been allocated to 43 projects. It is clear that the current economic downturn, and individual concerns about the security of their current jobs is reducing the willingness in the short term of existing employees to take the time to undergo training. It is important to note that the Operational Programme amendment approved by the Programme Monitoring Committee in 2008 was agreed by the Commission in December 2008. This targets “Employees requiring reskilling to enable them to remain in the workforce” and provides opportunities for strategic projects to apply for ESF to help with large scale redundancies. Other strategic projects are likely to come forward under this Priority to encourage individuals and employers to bring forward skills training while order books are slack.

However, despite the relatively low 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.

There has been a good spread of applications and resources between different organisational types in Priority 2 with seven receiving some support. Of these, the three biggest grant recipients to date have been the further education sector, the voluntary sector and local economic bodies.

There is currently **£68,782,463** ESF grant available in Priority 2 from the original allocation for new applications.

3.9 *PRIORITY 3: IMPROVING ACCESS TO LIFELONG LEARNING*

Figure 31: Cumulative Summary of Financial Performance in Priority 3 to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
1st Challenge Round	13	13,009,253	5,267,771	3,247,110	1,420,991
2nd Challenge Round	14	15,187,983	6,803,037	997,701	446,353
Total	27	28,197,236	12,070,808	4,244,811	1,867,344

*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 32: 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	45.00%	42.81%%	43.99%

Figure 33: Breakdown of ESF Priority 3 Approvals by Lead Sponsor Organisation Type

Organisation Type	Number of Projects Approved	ESF Grant Approved (£)	% of ESF Grant Approved
Central Government Departments/Agencies	0	0	0.00%
Communities Scotland Network	0	0	0.00%
Further Education	9	3,640,522	30.16%
Higher Education	0	0	0.00%
Local Authority	3	579,733	4.80%
Local Economic Bodies	2	929,289	7.70%
Other	7	3,115,104	25.81%
SE/HIE Network	0	0	0.00%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	0	0	0.00%
Voluntary Sector	6	3,806,160	31.53%
Total	27	12,070,808	100.00%

Figure 34: 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	2,500	2,259	65%	90%	967	10%	39%
Number of projects supporting the development of new courses/materials or innovative approaches to learning	60	609	65%	1,015%	144	10%	240%
Number of local learning centres/ access points/ workplace initiatives supported	350	638	65%	182%	129	10%	37%

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	1,600	1,710	65%	107%	46	10%	3%
Number of new courses/materials developed	800	1,450	65%	181%	75	10%	9%
Number of participants benefiting from support	9,000	40,311	65%	448%	2,799	10%	31%
Number of participants completing a partial or full qualification as a result of supported projects	*	*	65%	*	*	10%	*

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

Progress to Date in Implementing Priority 3

There has been a relatively low level of interest in this Priority to date with **65%** of the revised available budget being allocated to 27 projects. As a result, the virement proposal to transfer £20m from Priority 3 to Priority 1 was agreed at the Extraordinary Monitoring Committee meeting held in September. However, despite the relatively low 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. In particular, the indicator “number of participants benefiting from support” is substantially higher than expected since the thrust of this Priority is in supporting lifelong learning initiatives such as the development of new training materials and the innovative use of ICT in training. The training of end beneficiaries is more properly the aim of Priorities 1 and 2. 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.

To date, 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 **£6,511,950** ESF grant available in Priority 3 for new applications following the recent Commission agreement of virement from Priority 3 into Priority 1.

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 2009 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 CPP's and the Strategic Delivery Body in particular, are expected to result in early expenditure. By prioritising only those projects which have all co-finance in place and are ready to proceed immediately are approved, should further aid the achievement of N+2. In addition, stronger up-front compliance should ensure that only projects that can meet individual expenditure targets should retain grant.
- 4.3 With reference to **Annex 2**, it can be seen that the level of grant paid out (or in the process of being paid out) to sponsors equates to approximately 52% of the 2010 N+2 target for ESF and 41% towards the ERDF target figure. However, although the current level of declared expenditure is positive, 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 before any expenditure declaration for the ERDF and ESF Programmes are made to the Commission. As a consequence, there is still a considerable amount of verification work to be undertaken by the Scottish Government, the IAB and project partners before the end of the year.

5. Changes to Previously Approved Projects

- 5.1 This Committee is asked to note the change in lead sponsor to two previously approved ERDF projects. This has been done in agreement with the Scottish Government to assist implementation and resolve co-finance difficulties. The proposed activity of the two projects remains unchanged from the agreed applications. The lead sponsor for LUPS/ERDF/2008/2/1/0459 - Hydrogen Office - Hydrogen Technology Optimisation will now be the University of St Andrew's and the University of Stirling will be responsible for implementing LUPS/ERDF/2008/2/1/0480 - Sporting Chance Initiative.

6. Recommendations

- 6.1 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 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 as **Annexes 3(i) – 3(ii)**; and,
 - 6.1.5 Note the change in lead sponsor of two previously approved ERDF projects as outlined in Section 5.

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