



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 2009 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(iii)**.
- 1.3 This paper will also provide the Committee with an update regarding the implementation of the SDB bid by Scottish Enterprise. This assessment will be done in terms of project activity undertaken to date although not yet reported in approved grant claims. This is attached for information at **Annex 4**.
- 1.4 The final section of this report provides a summary of the second stage ERDF and ESF applications received in the third round.

2. Implementation of the ERDF Programme

- 2.1 The attached ERDF parts of **Annex 1** aim to provide a range of financial information essential to monitoring the implementation of the ERDF Programme. In summary, **Annex 1 (pages 1 and 2)** provides both a summary of the approved financial plan for the ERDF Programme and details the level of project commitments made to date for each of the Programme Priorities in these different categories. This information is presented in terms of the whole Programme period. As a result, this part of **Annex 1** enables a comparison to be made between current project commitment levels and the maximum allocations in the approved financial plan for each Programme Priority. For ease of reference, the key information for the ERDF Programme is summarised below.

Cumulative Summary of Financial Performance in ERDF Programme to Date

Financial Information expressed in £

	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	221,159,170	62,995,983	21,309,712	8,320,645
2nd Challenge Round	40	167,731,721	64,282,970	15,086,243	6,036,653
SDB	2	44,444,373	19,999,967	0	0
CPP	14**	30,465,196	11,199,346	1,680,694	639,154
Global Grants Body	9	10,817,045	4,233,937	0	0
Technical Assistance	4	8,411,964	4,205,982	1,490,861	745,428
Total	111	483,029,469	166,918,185	39,567,510	15,741,880

*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.

** The North Ayrshire CPP application has been split into a capital and a revenue application.

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%	34.56%	39.78%

- 2.2 A review of progress to date in the ERDF Programme indicates a good start has been made with forecast grant totalling over **53%** of the available programme allocation being made after two full application rounds. The overall level of ERDF grant committed to projects to date is **£166,918,185** and ERDF grant to the value of **£15,741,880** 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.
- 2.3 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 is a high commitment level in Priority 1 – Research and Innovation there are very low commitment levels in Priority 3 – Urban Regeneration and Priority 4 – Rural Development which will require further development work with sponsors in future application rounds to stimulate activity.
- 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 applications in the respective Priority. For the purpose of this report and to enable realistic comparisons and forecasts to be made, an average exchange rate of 1 EURO = £0.833333 or £1 = 1.20 has been used.

- 2.5 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.
- 2.6 The attached **Annex 3(ii)** shows that of the ERDF awards made to date, 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 65% of all committed resources.
- 2.7 In assessing the Programme from the perspective of the economic sectors targeted, it can be seen that although nearly 57% 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' and 'Human health activities'.
- 2.8 From a location dimension 61% 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.

2.9 PRIORITY 1: RESEARCH AND INNOVATION

Cumulative Summary of Financial Performance in Priority 1 to Date

Financial Information expressed in £

	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	121,206,214	23,995,201	3,560,453	1,450,827
2nd Challenge Round	23	62,644,338	23,340,377	86,243	36,653
SDB	2	44,444,373	19,999,967	0	0
CPP	N/A	N/A	N/A	N/A	N/A
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Total	43	228,294,925	67,335,545	3,646,696	1,487,480

*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.

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%	29.49%	40.79%

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	6,547	88%	262%	518	2%	21%
Number of research networks/ collaborations supported	600	1,052	88%	175%	110	2%	18%
Number of renewable energy projects supported	150	218	88%	145%	11	2%	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 new products and services developed by supported enterprises	1,800	1,458	88%	81%	12	2%	1%
Increase in turnover by supported enterprises (£m)	150	297	88%	198%	5	2%	3%
Number of new products and services developed by supported research networks	900	496	88%	55%	19	2%	2%
Number of gross jobs created	6,100	4,403	88%	72%	63	2%	1%
Number of net new jobs created	*	*	88%	*	*	2%	*
Increase in research/innovation expenditure by supported enterprises	*	*	88%	*	*	2%	*

*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 **88%** 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.

2.10 PRIORITY 2: ENTERPRISE GROWTH

Cumulative Summary of Financial Performance in Priority 2 to Date

Financial Information expressed in £

	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	91,620,211	35,958,495	14,882,306	5,889,530
2nd Challenge Round	10	86,452,356	34,482,909	15,000,000	6,000,000
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
Total	29	178,072,567	70,441,404	29,882,306	11,889,530

*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.

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%	39.56%	39.79%

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	5,406	69%	2,162%	185	12%	74%
Number of individuals/ enterprises receiving advice/ consultancy	11,600	26,758	69%	231%	3,513	12%	30%
Number of enterprises receiving support for e-commerce	5,700	4,865	69%	85%	457	12%	8%
Number of enterprises receiving support for energy-saving and resource efficiency	5,700	3,126	69%	55%	31	12%	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 turnover in supported enterprises (£m)	140	786.50	69%	562%	31.10	12%	22%
Number of new business starts	5,500	7,807	69%	142%	680	12%	12%
Number of e-commerce strategies developed	4,100	2,279	69%	56%	220	12%	5%
Number of enterprises implementing environmental audits and energy-saving/resource efficiency systems	4,100	1,507	69%	37%	10	12%	0%
Number of gross jobs created	13,600	14,703	69%	108%	957	12%	7%
Number of net new jobs created	*	*	69%	*	*	12%	*
Gross value added in supported enterprises	*	*	69%	*	*	12%	*

* 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 **69%** of the available budget has been allocated to 29 projects. Of the £70.44m 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' and the 'Increase in turnover in supported enterprises (£m)' the forecast figures understandably exceed 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 74% of the awards have gone to the SE/HIE Network.

2.11 PRIORITY 3: URBAN REGENERATION

Cumulative Summary of Financial Performance in Priority 3 to Date

Financial Information expressed in £

	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	2,412	965
2nd Challenge Round	2	4,844,830	1,586,394	0	0
SDB	N/A	N/A	N/A	N/A	N/A
CPP	14**	30,465,196	11,199,346	1,680,694	639,154
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Total	17	35,531,706	12,874,412	1,683,106	640,119

*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.

** The North Ayrshire CPP application has been split into a capital and a revenue application.

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	40.00%	36.23%	38.03%

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	15%	280%	16	1%	53%
Number of ICT and e-learning facilities supported	40	74	15%	185%	15	1%	37%
Number of childcare and other community facilities supported	30	74	15%	247%	1	1%	3%
Number of transport hub projects supported	25	2	15%	8%	0	1%	0%
Area of business space created or modified (m ²)	7,500	11,758	15%	157%	0	1%	0%
Number of renewable energy and resource/energy-efficiency projects supported	90	6	15%	7%	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	9,364	15%	1,441%	1,082	1%	166%
Increase in the number of individuals gaining employment through supported e-learning/ ICT facilities	650	1,882	15%	290%	15	1%	2%
Increase in the number of individuals gaining employment through supported childcare/ community facilities	500	890	15%	178%	0	1%	0%
Number of enterprises supported	1,100	1,207	15%	110%	30	1%	3%
Number of social enterprises supported	350	192	15%	55%	0	1%	0%
Number of gross jobs created	4,500	888	15%	20%	153	1%	3%
Time saved per journey (journey time x freight/ passenger volume)	*	*	15%	*	*	1%	*
Increase in share of energy from renewable resources in supported areas	*	*	15%	*	*	1%	*
Number of net new jobs created	*	*	15%	*	*	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 **15%** of the available budget being allocated to only 17 projects. Of the projects supported to date, fourteen are from the approved Community Planning Partnerships and only three 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 discussions taking place on the establishment of a JESSICA fund in the LUPS area and the proposed scope changes will 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. This focus is likely to continue in any Phase 2 approval for the CPP's.

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 organizing, resourcing and leading many Community Planning Partnerships.

2.12 PRIORITY 4: RURAL DEVELOPMENT

Cumulative Summary of Financial Performance in Priority 4 to Date

Financial Information expressed in £

	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	8,111,065	2,953,615	2,864,541	979,323
2nd Challenge Round	5	13,790,197	4,873,290	0	0
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	10,817,045	4,233,937	0	0
Total	18	32,718,307	12,060,842	2,864,541	979,323

*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.

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%	36.86%	34.19%

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	6,970	28%	498%	2	2%	0%
Number of e-learning/ childcare and other community facilities supported	40	69	28%	172%	0	2%	0%
Area of business space created or modified (m ²)	2,400	29,797	28%	1,242%	0	2%	0%
Number of educational access projects supported	20	11	28%	55%	0	2%	0%
Number of local transport projects supported	20	6	28%	30%	0	2%	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	477	28%	52%	7	2%	1%
Number of enterprises introducing new supply and production processes	910	301	28%	33%	39	2%	4%
Number of enterprises benefiting from supported facilities	900	592	28%	66%	0	2%	0%
Occupancy rates of							

business space by the end of the Programme	90%	90%	28%	100%	0%	2%	0%
Number of gross jobs created	1,400	1,298	28%	93%	0	2%	0%
Number of enterprises accessing higher and further education research/ training resources	*	*	28%	*	*	2%	*
Time saved per journey (journey time x freight/ passenger volume)	*	*	28%	*	*	2%	*
Increase in gross value added per employee in supported enterprises	*	*	28%	*	*	2%	*
Number of net new jobs created	*	*	28%	*	*	2%	*
Increase in turnover in supported enterprises	*	*	28%	*	*	2%	*
Increase in gross value added in supported enterprises	*	*	28%	*	*	2%	*

* 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 relatively low level of interest in this Priority to date with only **28%** of the available budget being allocated to only 18 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 proposed changes to the eligible activity scope of the Priority currently being progressed with 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.

3. Implementation of the ESF Programme

3.1 The attached ESF parts of **Annex 1** aim to provide a range of financial information essential to monitoring the implementation of the ESF Programme. In summary, **Annex 1 (pages 3 and 4)** provides both a summary of the approved financial plan for the ESF Programme and details the level of project commitments made to date for each of the Programme Priorities in these different categories. This information is presented in terms of the whole Programme period. As a result, this part of **Annex 1** enables a comparison to be made between current project commitment levels and the maximum allocations in the approved financial plan for each Programme Priority. For ease of reference, the key information for the ESF Programme is summarised below.

Cumulative Summary of Financial Performance in ESF Programme to Date

Financial Information expressed in £

	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	17,329,677	6,739,556	15,967,817	6,058,774
1st Challenge Round	99	96,678,656	40,432,474	18,181,815	7,539,695
2nd Challenge Round	73	66,747,416	26,849,080	110,249	39,781
CPP	13	92,414,603	38,629,237	7,446,200	3,225,929
Technical Assistance	4	6,040,596	3,020,298	1,078,518	539,259
Total	232	279,210,948	115,670,645	42,784,599	17,403,438

*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.

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%	41.43%	40.68%

- 3.2 A review of progress to date in the ESF Programme indicates a good start has been made with forecast grant totalling over **51%** of the available programme allocation being made after the Shadow and two full application rounds. The overall level of ESF grant committed to projects to date is **£115,670,645** and ESF grant to the value of **£17,403,438** 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 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.
- 3.3 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 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 which will require further development work with sponsors in future application rounds to stimulate activity.
- 3.4 A full analysis of implementation to date in each ESF 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 applications in the respective Priority. For the purpose of this report and to enable realistic comparisons and forecasts to be made, an average exchange rate of 1 EURO = £0.833333 or £1 = 1.20 has been used.

- 3.5 The attached **Annex 3(iii)** shows that of the ESF awards made to date, 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 60% of all ESF commitments.
- 3.6 In assessing the Programme from the perspective of the economic sectors targeted, it can be seen that although nearly 44% of resources have been allocated to 'Other unspecified services', significant grant has also been awarded to other sectors, particularly 'Education' and 'Social work, community, social and personal services',
- 3.7 From a location dimension 27% 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 low level of resources specifically targeted at rural areas.

3.8 *PRIORITY 1: PROGRESSING INTO EMPLOYMENT*

Cumulative Summary of Financial Performance in Priority 1 to Date

Financial Information expressed in £

	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	17,329,677	6,739,556	15,967,817	6,058,774
1st Challenge Round	55	53,204,843	22,058,379	12,749,174	5,240,528
2nd Challenge Round	47	38,784,362	14,578,496	79,942	26,143
CPP	13	92,414,603	38,629,237	7,446,200	3,225,929
Total	158	201,733,485	82,005,668	36,243,133	14,551,374

*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.

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%	40.65%	40.15%

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	117,746	81%	443%	42,683	14%	160%
Number of participants with multiple deprivations (i.e. those who qualify for 2 or more of the target groups)	13,300	88,536	81%	666%	29,491	14%	222%
Number of participants in the NEET group	2,700	26,832	81%	994%	9,904	14%	367%
Number of participants with disabilities or health difficulties	5,400	26,912	81%	498%	6,347	14%	118%

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	35,979	81%	409%	5,213	14%	59%
Number of participants entering education or training	8,800	27,846	81%	316%	3,762	14%	43%
Number of participants gaining a partial (i.e. a completed unit towards a full qualification) or full qualification	13,200	51,488	81%	390%	8,007	14%	61%
Number of participants in employment six months after leaving	4,400	25,012	81%	568%	320	14%	7%
Number of participants who progress towards employment	*	*	81%	*	*	14%	*
Net number of participants entering employment	*	*	81%	*	*	14%	*

* 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 very strong interest in this Priority to date and over **81%** of the available budget has been allocated to 158 projects. Amongst this allocation figure are thirteen CPP bids approved by Scottish Ministers which have been awarded £38.6m ESF grant 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.

3.9 *PRIORITY 2: PROGRESSING THROUGH EMPLOYMENT*

Cumulative Summary of Financial Performance in Priority 2 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
Shadow Round	N/A	N/A	N/A	N/A	N/A
1st Challenge Round	30	28,945,939	12,311,481	3,587,975	1,497,720
2nd Challenge Round	12	12,151,775	5,187,260	0	0
CPP	N/A	N/A	N/A	N/A	N/A
Total	42	41,097,714	17,498,741	3,587,975	1,497,720

*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.

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%	42.58%	41.74%

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	41,926	21%	76%	5,386	2%	10%
Number of male participants without basic skills	9,300	3,945	21%	42%	532	2%	6%
Number of female participants without basic skills	9,300	3,820	21%	41%	640	2%	7%
Number of male participants without level 2 skills	8,100	4,312	21%	53%	257	2%	3%
Number of female participants without level 2 skills	8,100	4,040	21%	50%	361	2%	4%
Number of male participants without level 3 skills	3,500	8,595	21%	246%	571	2%	16%
Number of female participants without level 3 skills	3,500	7,843	21%	224%	580	2%	17%
Number of women in projects addressing better gender balance	3,300	2,876	21%	87%	691	2%	21%
Number of men in projects addressing better gender balance	1,100	1,215	21%	110%	143	2%	13%
Number of participants in projects addressing entrepreneurial and managerial skills	4,400	9,351	21%	213%	1,671	2%	38%
Number of participants from social enterprises	4,400	976	21%	22%	185	2%	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
Number of participants gaining partial (i.e. a unit within a full qualification) or full qualification	20,000	32,440	21%	162%	66	2%	0%
Number of male participants gaining basic skills	3,700	2,526	21%	68%	12	2%	0%
Number of female participants gaining basic skills	3,700	3,546	21%	96%	283	2%	8%
Number of male participants gaining level 2 skills	2,500	7,163	21%	287%	181	2%	7%
Number of female participants gaining level 2 skills	2,500	6,848	21%	274%	196	2%	8%
Number of male participants gaining level 3 or above skills	700	6,837	21%	977%	29	2%	4%
Number of female participants gaining level 3 or above skills	700	6,634	21%	948%	44	2%	6%

Number of women going into gender-imbalanced sectors	1,980	2,550	21%	129%	543	2%	27%
Number of men going into gender-imbalanced sectors	660	882	21%	134%	127	2%	19%
Number of entrepreneurs and new managers gaining a partial or full qualification	3,100	4,723	21%	152%	57	2%	2%
Number of participants from social enterprises completing a partial or full qualification	3,100	609	21%	20%	1	2%	0%
Number of participants who progress into more secure or better-skilled employment	*	*	21%	*	*	2%	*
Number of companies benefiting from improved skills training	*	*	21%	*	*	2%	*
Number of social enterprises benefiting from improved skills training	*	*	21%	*	*	2%	*

* 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 and Key Operational Issues

There has been a relatively low level of interest in this Priority to date and only **21%** of the available budget has been allocated to 42 projects. It is possible that the current economic turmoil, 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, bringing "Employees requiring reskilling to enable them to remain in the workforce" 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 Central Government Departments/Agencies.

3.10 PRIORITY 3: IMPROVING ACCESS TO LIFELONG LEARNING

Cumulative Summary of Financial Performance in Priority 3 to Date

Financial Information expressed in £

	Number of Projects approved to date	Approved Expenditure to date	Approved Grant to date*	Declared Expenditure to date	Grant paid to date
Shadow Round	N/A	N/A	N/A	N/A	N/A
1st Challenge Round	14	14,527,874	6,062,614	1,844,666	801,447
2nd Challenge Round	14	15,811,279	7,083,324	30,307	13,638
CPP	N/A	N/A	N/A	N/A	N/A
Total	28	30,339,153	13,145,938	1,874,973	815,085

*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.

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%	43.33%	43.47%

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	2,061	37%	82%	289	2%	12%
Number of projects supporting the development of new courses/materials or innovative approaches to learning	60	580	37%	967%	19	2%	32%
Number of local learning centres/ access points/ workplace initiatives supported	350	629	37%	180%	82	2%	23%

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	1,555	37%	97%	40	2%	2%
Number of new courses/materials developed	800	1,389	37%	174%	60	2%	7%
Number of participants benefiting from support	9,000	39,863	37%	443%	1,152	2%	13%
Number of participants completing a partial or full qualification as a result of supported projects	*	*	37%	*	*	2%	*

* 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 and only **37%** of the available budget has been allocated to 28 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.

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 1 (2007) budget allocation (minus advance payments) requires to be paid out and declared to the Commission by 31 December of Year 3 (2009) and so on. The attached **Annex 2** outlines the indicative expenditure targets which have to be met by the end of each calendar year and provides a comparison with current commitments and payments.

- 4.2.1 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 targets. The focus on delivery of a significant level of funding under certain priorities by CPPs, the Strategic Delivery and Global Grant bodies in particular, are expected to result in early expenditure. By ensuring only those projects which have all co-finance in place and are ready to proceed immediately are approved, will 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.
- 4.2.2 With reference to **Annex 2**, it can be seen that the level of grant paid out to sponsors already exceeds the 2009 N+2 target for ESF (at 130%) and is 84% 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 to source documentation 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. Analysis of Third Round Stage 2 Applications

- 5.1.1 The third round of applications for funding under the 2007-13 European Structural Funds Programmes opened this summer. The closing date for 2nd stage applications was Friday 09 October 2009. A summary of the current financial position in both the ESF and ERDF Programmes and the level of applications received in the different Priorities are listed below.

Table 1: Comparison of Available ESF Grant with Third Round Stage 2 Applications

Priority	Total Grant Allocation* (£)	Approved Grant Commitments to date (£)	Remaining Balance for 3 rd Round (£)	Number and value of Bids Received in 3 rd Round
Priority 1: Progressing into Employment	100,995,419	82,005,668	18,989,751	£27,339,905.33 65 Applications
Priority 2: Progressing through Employment	83,000,689	17,498,741	65,501,948	£20,895,294.33 31 Applications
Priority 3: Improving Access to Lifelong Learning	35,539,591	13,145,938	22,393,653	£0 0 Applications
Priority 4: Technical Assistance	5,398,419	3,020,298	2,378,121	£0 0 Applications
Total	224,934,118	115,670,645	109,263,473	£48,235,199.66 96 Applications

* An assumed exchange rate of £1 = 1.20 EUROS has been used

Table 2: Comparison of Available ERDF Grant with Third Round Stage 2 Applications

Priority	Total Grant Allocation* (£)	Approved Grant Commitments to date (£)	Remaining Balance for 3rd Round (£)	Number and value of Bids Received in 3 rd Round
Priority 1: Research and Innovation	76,758,059	67,335,545	9,422,514	£40,857,283.00 22 Applications
Priority 2: Enterprise Growth	101,821,916	70,441,404	31,380,512	£10,967,367.00 11 Applications
Priority 3: Urban Regeneration	84,590,515	12,874,412	71,716,103	£55,392,875.00 26 Applications
Priority 4: Rural Development	42,608,557	12,060,842	30,547,715	£10,952,482.35 11 Applications
Priority 5: Technical Assistance	7,519,157	4,205,982	3,313,175	£0 0 Applications
Total	313,298,204	166,918,185	146,380,019	£ 118,170,007.35 70 Applications

* An assumed exchange rate of £1 = 1.20 EUROS has been used

5.1.2 Breakdown of Applications received in ESF Priority 1

At the Extraordinary meeting of this Committee held on 04 September 2009, it was identified in the paper on future funding options that there were likely to be four significant calls on the remaining funds available in ESF Priority 1. Based on the **166** applications received in the third round, the breakdown in the various categories:

- i) The Scottish Funding Council have applied, with WoSCoP, for **£6,872,727.00m** for the year starting August 2010 to provide proportionally more College places for young people aged 16-24 unable to get jobs. The match is from part of the Scottish Government's £16m consequentials from the recent DWP announcements offering employment or training guarantees to young people. There may be some overlap between this bid and the Colleges' individual competitive bids under (iv) below.
- ii) The 13 eligible CPPs have come forward with proposals to extend for an additional year their current two-year Employability Plans, which end in April 2010. The CPPs were asked not to submit stage 2 applications at this time but to focus on their employability plans. The indicative total bids from the stage 1 submissions amount to **£19,741,632.98m**.
- iii) The Big Lottery Fund have chosen not to submit an application in the third round due to ongoing difficulties in aligning their operating practices with the National Rules of Expenditure governing all Structural Fund projects. However, discussions regarding other avenues of potential co-operation may continue over the coming months and the Big Lottery Fund may submit an application in the future.
- iv) Individual Priority 1 competitive project bids from organisations in a number of organisational sectors seeking **£ 27,139,149.33m**. This splits into:
 - * **£10,426,778.13m** from the Third Sector;
 - * **£3,610,814.46m** from Colleges (Additional to the bid at 3(i) above);
 - * **£2,855,673.91m** from Local Authorities in the 13 eligible areas (Additional to the bid at 3(ii) above); and,
 - * **£10,245,882.80m** from local economic bodies and others.

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(iii)**;
- 6.1.5 Note the analysis of Third Round applications as detailed in Section 5; and,
- 6.1.6 Note the update regarding the implementation of the SDB bid by Scottish Enterprise which is attached as **Annex 4**.

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