



## 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 agree changes in two previously approved ERDF projects. These are outlined in Section 5.
- 1.4 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**.

## 2. Implementation of the ERDF Programme

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

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
Priority 1: Research and Innovation	54	175,875,772	67,638,955	47,464,901	16,464,528
Priority 2: Enterprise Growth	35	246,680,710	97,675,458	68,599,706	27,256,392
Priority 3: Urban Regeneration**	28	126,854,969	51,104,791	12,492,513	4,719,797
Priority 4: Rural Development	27	52,359,871	19,758,225	6,584,053	2,409,048
Priority 5: Technical Assistance	5	8,411,964	4,205,982	1,490,861	745,428
<b>Total</b>	<b>149</b>	<b>610,183,288</b>	<b>240,383,411</b>	<b>136,632,034</b>	<b>51,595,193</b>

\*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 now includes the award made to the JESSICA Holding Fund.

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
<b>Total</b>	<b>41.323%</b>	<b>39.395%</b>	<b>37.762%</b>

- 2.1 A review of progress to date in the ERDF Programme indicates good progress being made with forecast grant totalling over **71%** of the available programme allocation having been allocated. The overall level of ERDF grant committed to projects to date is **£240,383,411** and ERDF grant to the value of **£51,595,193** have been processed by the IAB and passed to the Scottish Government for payment to sponsors. With regard to the forecast commitments already made in the Programme, the average ERDF grant intervention rate being requested is still below the approved average for the ERDF Operational Programme and if continued should enable more activity to be supported.
- 2.2 Notwithstanding the strong performance of the ERDF Programme overall, it should be noted that performance across all four operational priorities is mixed. Although there are high commitment levels in Priority 1 – Research and Innovation and Priority 2 – Enterprise Growth, there are still relatively low commitment levels in Priority 3 – Urban Regeneration and Priority 4 – Rural Development. This situation will require either further development work with sponsors in order to stimulate new project activity if the Operational Programme is to be implemented as currently approved, or decisions made 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. **Figure 3** below provides a breakdown of ERDF Approvals by the Lead Sponsor Organisation type as defined on the EUROSYS management system. It should also be noted that many of these approved applications are multi-agency in design and have partnership between different organisations and between different geographical areas at the heart of their delivery.

Figure 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	9	48,532,831	20.55%
Communities Scotland Network	1	274,830	0.12%
Further Education	7	6,474,476	2.74%
Higher Education	43	37,099,045	15.71%
Local Authority	35	27,954,693	11.84%
Local Economic Bodies	9	11,675,637	4.94%
Other	13	17,023,022	7.21%
SE/HIE Network	12	78,082,963	33.06%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	6	3,520,470	1.49%
Voluntary Sector	9	5,539,462	2.34%
<b>Total</b>	<b>144</b>	<b>236,177,429</b>	<b>100.00%</b>

\*Excluding Technical Assistance Projects

- 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 57% of all committed resources. The recent approval of the JESSICA Holding Fund has increased the percentage of ERDF resources committed to 'Integrated projects for urban and rural regeneration' to nearly 18%.
- 2.6 In assessing the Programme from the perspective of the economic sectors targeted, it can be seen that although over 50% of resources have been allocated to 'Other unspecified services', grant has also been awarded to a good cross-section of other sectors. These include 'Financial intermediation' (12%). 'Activities linked to the environment' (9%) and 'Human health activities' (7%).
- 2.7 From a location dimension over 62% 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 approval the JESSICA Holding Fund for investment in the 13 spatially targeted local authority areas in Priority 3;
- the support of projects particularly in Priority 1 which seek to establish genuine partnerships between institutions across the Programme area;
- a concentration of resources in those geographical areas where there are either Community Planning Partnerships (CPP's) in existence or centres of excellence in other disciplines; and,
- although able to benefit from nationally run schemes there has been a low level of resources specifically targeted at rural areas.

## 2.8 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 (£)
Challenge Round	52	131,431,399	47,638,988	26,929,450	7,223,575
SDB	2	44,444,373	19,999,967	20,535,451	9,240,953
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
<b>Total</b>	<b>54</b>	<b>175,875,772</b>	<b>67,638,955</b>	<b>47,464,901</b>	<b>16,464,528</b>

\*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
<b>Total</b>	<b>37.294%</b>	<b>38.458%</b>	<b>34.688%</b>

Figure 6: Analysis of Priority 1 Indicators

**Outputs**

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Number of Enterprises supported	2,500	6,233	82%	249%	2,864	20%	115%
Number of research networks/ collaborations supported	600	877	82%	146%	407	20%	68%
Number of renewable energy projects supported	150	257	82%	171%	77	20%	51%

**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	1,440	82%	80%	134	20%	7%
Increase in turnover by supported enterprises (£m)	150	208	82%	139%	15	20%	10%
Number of new products and services developed by supported research networks	900	467	82%	52%	44	20%	5%
Number of gross jobs created	6,100	4,407	82%	72%	275	20%	5%
Number of net new jobs created	*	*	82%	*	*	20%	*
Increase in research/ innovation expenditure by supported enterprises	*	*	82%	*	*	20%	*

\*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 **82%** of the available budget has been allocated to 54 projects. Amongst this allocation figure are included the two SDB bids submitted by Scottish Enterprise which have been awarded nearly £20 million grant. As a consequence of this high commitment level it has resulted in 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.

Since the last Monitoring Committee meeting, the Commission has now agreed the large project application for LUPS/ERDF/2010/1/1/0033 - Scottish Centre for Regenerative Medicine. This University of Edinburgh project had originally sought ERDF grant totaling £5.3m at a grant intervention rate of less than 10% of eligible expenditure. Following discussions between the Commission and the Managing Authority, it was agreed to group a number of work contracts together and accelerate the speed of project implementation by focusing the grant on earlier stage works than was originally envisaged.

A consequence of this decision has been to significantly increase the approved grant intervention rate for the project to 37.29%. This has in turn resulted in the average grant intervention rate for Priority 1 commitments being currently higher than the approved average designated for the priority in the revised financial tables. This factor will need to be considered by the Committee when approving new commitments in the priority in order to ensure a realignment in the average grant rate by Programme closure.

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 **£15,259,749** ERDF grant available in Priority 1 from the original allocation for new applications.

## 2.9 PRIORITY 2: ENTERPRISE GROWTH

Figure 7: 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 (£)
Challenge Round	33	194,325,153	76,733,234	68,599,706	27,256,392
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	2	52,355,557	20,942,224	0	0
<b>Total</b>	<b>35</b>	<b>246,680,710</b>	<b>97,675,458</b>	<b>68,599,706</b>	<b>27,256,392</b>

\*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 8: 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
<b>Total</b>	<b>40.000%</b>	<b>39.596%</b>	<b>39.732%</b>

Figure 9: 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	6,195	89%	2,478%	1,145	25%	458%
Number of individuals/ enterprises receiving advice/ consultancy	11,600	28,578	89%	246%	10,035	25%	87%
Number of enterprises receiving support for e-commerce	5,700	4,874	89%	86%	1,593	25%	28%
Number of enterprises receiving support for energy-saving and resource efficiency	5,700	3,191	89%	56%	626	25%	11%

**Results and Impacts**

Approved Indicator	Approved Programme Target	Forecast Targets to date	% Allocation Committed	% Programme Target met by Forecast	Actual Achieved to date	% Allocation Paid Out	% Programme Target met by Actual
Increase in turnover in supported enterprises (£m)	140	150.11	89%	107%	10.81	25%	8%
Number of new business starts	5,500	8,104	89%	147%	2,809	25%	51%
Number of e-commerce strategies developed	4,100	2,298	89%	56%	650	25%	16%
Number of enterprises implementing environmental audits and energy-saving/ resource efficiency systems	4,100	1,522	89%	37%	129	25%	3%
Number of gross jobs created	13,600	17,106	89%	126%	3,545	25%	26%
Number of net new jobs created	*	*	89%	*	*	25%	*
Gross value added in supported enterprises	*	*	89%	*	*	25%	*

\* 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 **89%** of the available budget has been allocated to 35 projects. Of the £97.67m grant committed to date, a total of £74.45m is comprised of five 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, the Scottish Investment Bank Loan Fund, the East of Scotland Investment Fund and the West of Scotland Loan Fund.

On the basis of the commitments made to date some of the approved indicators are already being forecast for full achievement. With regard to the 'Number of enterprises receiving financial support' the forecast figure understandably exceeds the approved programme target. This is of course dependent on all approved commitments being fully delivered in accordance with their applications and all original output/impact/result planning assumptions proving realistic.

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

There is currently **£12,292,211** ERDF grant available in Priority 2 from the original allocation for new applications.

## 2.10 PRIORITY 3: URBAN REGENERATION

Figure 10: 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 (£)
Challenge Round	11	31,253,834	10,314,545	1,039,899	345,398
SDB	N/A	N/A	N/A	N/A	N/A
CPP***	14	35,060,791	13,007,902	11,452,614	4,374,399
Global Grants Body	N/A	N/A	N/A	N/A	N/A
Fast Track**	3	60,540,344	27,782,344	0	0
<b>Total</b>	<b>18</b>	<b>126,854,969</b>	<b>51,104,791</b>	<b>12,492,513</b>	<b>4,719,797</b>

\*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 now includes the award made to the JESSICA Holding Fund.

\*\*\*Please note that North Ayrshire Council have separate capital and revenue projects.

Figure 11: 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
<b>Total</b>	<b>48.000%</b>	<b>40.286%</b>	<b>37.781%</b>

Figure 12: 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	86	56%	287%	47	5%	157%
Number of ICT and e-learning facilities supported	40	72	56%	180%	36	5%	90%
Number of childcare and other community facilities supported	30	68	56%	227%	8	5%	27%
Number of transport hub projects supported	25	2	56%	8%	0	5%	0%
Area of business space created or modified (m <sup>2</sup> )	7,500	9,769	56%	130%	0	5%	0%
Number of renewable energy and resource/energy-efficiency projects supported	90	6	56%	7%	1	5%	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	12,276	56%	1,889%	4,579	5%	704%
Increase in the number of individuals gaining employment through supported e-learning/ ICT facilities	650	1,922	56%	296%	269	5%	41%
Increase in the number of individuals gaining employment through supported childcare/ community facilities	500	890	56%	178%	124	5%	25%
Number of enterprises supported	1,100	1,176	56%	107%	200	5%	18%
Number of social enterprises supported	350	177	56%	51%	15	5%	4%
Number of gross jobs created	4,500	2,516	56%	56%	350	5%	8%
Time saved per journey (journey time x freight/ passenger volume)	*	*	56%	*	*	5%	*
Increase in share of energy from renewable resources in supported areas	*	*	56%	*	*	5%	*
Number of net new jobs created	*	*	56%	*	*	5%	*

\* 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 **56%** 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. The allocation figure for the priority has improved since the last Committee meeting with the formal approval of the JESSICA Holding Fund. In addition, the IAB has undertaken additional work with the partnership in order to stimulate interest and highlight the scope of what can be funded through this Priority, This has already been noticed in the higher number of potential projects being submitted 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 £10m has already been ring-fenced (although not formally approved) for associated JESSICA infrastructure projects.

As a result, there is currently **£30,252,965** ERDF grant available in Priority 3 from the original allocation for new applications.

2.11 PRIORITY 4: RURAL DEVELOPMENT

Figure 13: 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 (£)
Challenge Round	13	30,052,877	10,937,674	5,432,112	1,947,406
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	14	22,306,994	8,820,551	1,151,941	461,642
Fast Track	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>27</b>	<b>52,359,871</b>	<b>19,758,225</b>	<b>6,584,053</b>	<b>2,409,048</b>

\*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 14: 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
<b>Total</b>	<b>40.000%</b>	<b>37.735%</b>	<b>36.589%</b>

Figure 15: 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	6,371	43%	455%	109	5%	8%
Number of e-learning/ childcare and other community facilities supported	40	51	43%	127%	0	5%	0%
Area of business space created or modified (m <sup>2</sup> )	2,400	66,962	43%	2,790%	0	5%	0%
Number of educational access projects supported	20	4	43%	20%	1	5%	5%
Number of local transport projects supported	20	6	43%	30%	0	5%	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	151	43%	17%	26	5%	3%
Number of enterprises introducing new supply and production processes	910	301	43%	33%	66	5%	7%
Number of enterprises benefiting from supported facilities	900	600	43%	67%	34	5%	4%
Occupancy rates of business space by the end of the Programme	90%	90%	43%	100%	0%	5%	0%
Number of gross jobs created	1,400	1,278	43%	91%	1,547	5%	110%
Number of enterprises accessing higher and further education research/ training resources	*	*	43%	*	*	5%	*
Time saved per journey (journey time x freight/ passenger volume)	*	*	43%	*	*	5%	*
Increase in gross value added per employee in supported enterprises	*	*	43%	*	*	5%	*
Number of net new jobs created	*	*	43%	*	*	5%	*
Increase in turnover in supported enterprises	*	*	43%	*	*	5%	*
Increase in gross value added in supported enterprises	*	*	43%	*	*	5%	*

\* 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 **43%** of the available budget being allocated to only 27 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 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 **£26,259,016** ERDF grant available in Priority 4 from the original allocation for new applications.

### 3. Implementation of the ESF Programme

Figure 16: Cumulative Summary of Financial Performance in ESF Programme to Date

	Number of Projects approved to date	Approved Expenditure to date (£)	Approved Grant to date (£)*	Declared Expenditure to date (£)	Grant paid to date (£)
Priority 1: Progressing into Employment	204	277,814,780	111,777,088	92,815,544	37,768,504
Priority 2: Progressing through Employment	67	124,234,359	54,392,354	10,772,327	4,497,840
Priority 3: Improving Access to Lifelong Learning	27	28,197,236	12,070,808	7,801,392	3,288,339
Priority 4: Technical Assistance	4	6,040,596	3,020,298	1,078,518	539,259
Priority 5: Strategic Skills Pipeline	0	0	0	0	0
<b>Total</b>	<b>302</b>	<b>436,286,971</b>	<b>181,260,548</b>	<b>112,467,781</b>	<b>46,093,942</b>

\*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 17: 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
<b>Total</b>	<b>45.108%</b>	<b>41.546%</b>	<b>40.984%</b>

- 3.1 A review of progress to date in the ESF Programme indicates grant allocations totalling nearly **75%** of the available programme allocation being approved with applications received for more than the remaining grant available. The overall level of ESF grant committed to projects to date is **£181,260,548** and ESF grant to the value of **£46,093,942** has been processed in claims by the IAB and passed to the Scottish Government for payment to sponsors. With regard to the forecast commitments already made in the Programme, the average ESF grant intervention rate being requested is below the approved average for the ESF Operational Programme and if this trend continued should enable significantly more activity to be supported.
- 3.2 The Commission are currently considering a proposal to establish ESF Priority 5 – Strategic Skills Pipeline. All financial figures used in this report reflect this virement proposal.
- 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 Another important feature of the LUPS ESF Programme 2007 - 2013 has been the genuine partnership nature of its implementation. In addition to having a good cross-section of partnership bodies represented on Programme Committees and Advisory Groups and a large representative attendance at various IAB workshops, it can also be seen in the spread of grant approvals in the Programme to date. **Figure 18** below provides a breakdown of ESF Approvals by the Lead Sponsor Organisation type as defined on the EUROSYS management system. It should also be noted that many of these approved applications are multi-agency in design and have partnership between different organisations and between different geographical areas at the heart of their delivery.

Figure 18: 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	10	29,294,440	16.44%
Communities Scotland Network	0	0	0.00%
Further Education	83	31,905,964	17.90%
Higher Education	3	513,690	0.29%
Local Authority	39	50,661,598	28.42%
Local Economic Bodies	28	12,262,238	6.88%
Other	16	16,040,110	9.00%
SE/HIE Network	0	0	0.00%
Sector Skills Councils	0	0	0.00%
Tourist Organisations	0	0	0.00%
Voluntary Sector	119	37,562,210	21.07%
<b>Total</b>	<b>298</b>	<b>178,240,250</b>	<b>100.00%</b>

\*Excluding Technical Assistance Projects

- 3.5 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 71% 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 38% of resources have been allocated to 'Other unspecified services'. Significant grant has also been awarded to other economic sectors, particularly 'Education' (37%) and 'Social work, community, social and personal services' (16%),
- 3.7 From a location dimension 39% 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.

### 3.8 PRIORITY 1: PROGRESSING INTO EMPLOYMENT

Figure 19: 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	15,966,581	6,058,773
Challenge Round	148	136,034,478	54,568,726	36,901,286	14,877,844
CPP	13	124,646,321	50,468,806	39,947,677	16,831,887
Fast Track	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>204</b>	<b>277,814,780</b>	<b>111,777,088</b>	<b>92,815,544</b>	<b>37,768,504</b>

\*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 20: 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
<b>Total</b>	<b>45.000%</b>	<b>40.234%</b>	<b>40.692%</b>

Figure 21: 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	128,080	97%	481%	73,714	33%	277%
Number of participants with multiple deprivations (i.e. those who qualify for 2 or more of the target groups)	13,300	100,270	97%	754%	60,400	33%	454%
Number of participants in the NEET group	2,700	32,948	97%	1,220%	19,983	33%	740%
Number of participants with disabilities or health difficulties	5,400	29,088	97%	539%	14,607	33%	270%

### 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	39,266	97%	446%	11,929	33%	136%
Number of participants entering education or training	8,800	32,239	97%	366%	8,007	33%	91%
Number of participants gaining a partial (i.e. a completed unit towards a full qualification) or full qualification	13,200	63,458	97%	481%	10,495	33%	80%
Number of participants in employment six months after leaving	4,400	27,615	97%	628%	3,914	33%	89%
Number of participants who progress towards employment	*	*	97%	*	*	33%	*
Net number of participants entering employment	*	*	97%	*	*	33%	*

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

\*\* The figures used for Approved Programme Target are the pre-virement figures and will be changed when the decision is agreed by the Commission

### Progress to Date in Implementing Priority 1

There has been very strong interest in this Priority to date and over **97%** of the available revised budget has been allocated to 204 projects. Amongst this allocation figure are thirteen CPP bids approved by Scottish Ministers which have been awarded £52.4m ESF grant (including 2<sup>nd</sup> 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.

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

There is currently **£3,155,783** ESF grant available in Priority 1.

3.9 PRIORITY 2: PROGRESSING THROUGH EMPLOYMENT

Figure 22: 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 (£)
Shadow Round	N/A	N/A	N/A	N/A	N/A
Challenge Round	62	63,118,991	26,890,440	10,772,327	4,497,840
CPP	N/A	N/A	N/A	N/A	N/A
Fast Track	5	61,115,368	27,501,914	0	0
<b>Total</b>	<b>67</b>	<b>124,234,359</b>	<b>54,392,354</b>	<b>10,772,327</b>	<b>4,497,840</b>

\*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 23: 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
<b>Total</b>	<b>45.000%</b>	<b>43.782%</b>	<b>41.754%</b>

Figure 24: 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	57,970	101%	105%	13,888	8%	25%
Number of male participants without basic skills	9,300	5,187	101%	56%	2,461	8%	26%
Number of female participants without basic skills	9,300	4,746	101%	51%	2,218	8%	24%
Number of male participants without level 2 skills	8,100	5,042	101%	62%	446	8%	6%
Number of female participants without level 2 skills	8,100	4,684	101%	58%	409	8%	5%
Number of male participants without level 3 skills	3,500	11,094	101%	317%	1,268	8%	36%
Number of female participants without level 3 skills	3,500	9,508	101%	272%	1,065	8%	30%
Number of women in projects addressing better gender balance	3,300	3,036	101%	92%	1,248	8%	38%
Number of men in projects addressing better gender balance	1,100	1,068	101%	97%	365	8%	33%
Number of participants in projects addressing entrepreneurial and managerial skills	4,400	22,740	101%	517%	2,664	8%	61%
Number of participants from social enterprises	4,400	4,653	101%	106%	465	8%	11%

**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	32,806	101%	164%	1,561	8%	8%
Number of male participants gaining basic skills	3,700	3,051	101%	82%	355	8%	10%
Number of female participants gaining basic skills	3,700	3,364	101%	91%	267	8%	7%
Number of male participants gaining level 2 skills	2,500	7,201	101%	288%	149	8%	6%
Number of female participants gaining level 2 skills	2,500	6,715	101%	269%	177	8%	7%
Number of male participants gaining level 3 or above skills	700	6,352	101%	756%	470	8%	67%
Number of female participants gaining level 3 or above skills	700	6,156	101%	879%	371	8%	53%
Number of women going into gender-imbalanced sectors	1,980	2,616	101%	132%	1,079	8%	54%
Number of men going into gender-imbalanced sectors	660	755	101%	114%	23	8%	3%
Number of entrepreneurs and new managers gaining a partial or full qualification	3,100	5,571	101%	180%	381	8%	12%
Number of participants from social enterprises completing a partial or full qualification	3,100	1,101	101%	36%	5	8%	0%
Number of participants who progress into more secure or better-skilled employment	*	*	101%	*	*	8%	*
Number of companies benefiting from improved skills training	*	*	101%	*	*	8%	*
Number of social enterprises benefiting from improved skills training	*	*	101%	*	*	8%	*

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

\*\* The figures used for Approved Programme Target are the pre-virement figures and will be changed when the decision is agreed by the Commission

### Progress to Date in Implementing Priority 2

Following the virement of resources out of Priority 2, the commitment level equates to nearly **101%** of the revised budget and 67 projects have been approved.

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. 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 an over-commitment of **£473,538** ESF grant in Priority 2.

### 3.10 *PRIORITY 3: IMPROVING ACCESS TO LIFELONG LEARNING*

Figure 25: Cumulative Summary of Financial Performance in Priority 3 to Date

	<b>Number of Projects approved to date</b>	<b>Approved Expenditure to date (£)</b>	<b>Approved Grant to date (£)*</b>	<b>Declared Expenditure to date (£)</b>	<b>Grant paid to date (£)</b>
Shadow Round	N/A	N/A	N/A	N/A	N/A
Challenge Round	27	28,197,236	12,070,808	7,801,392	3,288,339
CPP**	N/A	N/A	N/A	N/A	N/A
Fast Track	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>27</b>	<b>28,197,236</b>	<b>12,070,808</b>	<b>7,801,392</b>	<b>3,288,339</b>

\*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 26: Comparison of Approved Average Grant Rate for Priority 3 envisaged in Operational Programme with Total Grant Approved and Paid to date (%)

	<b>Average Grant Rate – Operational Programme</b>	<b>Average Grant Rate - Commitments</b>	<b>Average Grant Rate – Payments</b>
<b>Total</b>	<b>45.000%</b>	<b>42.808%%</b>	<b>42.151%</b>

Figure 27: 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	1,863	99%	75%	1,816	27%	73%
Number of projects supporting the development of new courses/materials or innovative approaches to learning	60	574	99%	957%	392	27%	653%
Number of local learning centres/ access points/ workplace initiatives supported	350	560	99%	182%	196	27%	56%

**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	1,543	99%	96%	58	27%	4%
Number of new courses/materials developed	800	1,190	99%	149%	112	27%	14%
Number of participants benefiting from support	9,000	35,733	99%	397%	15,430	27%	171%
Number of participants completing a partial or full qualification as a result of supported projects	*	*	99%	*	*	27%	*

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

\*\* The figures used for Approved Programme Target are the pre-virement figures and will be changed when the decision is agreed by the Commission

**Progress to Date in Implementing Priority 3**

Following the virement of resources out of Priority 3, the commitment level equates to nearly **99%** of the revised budget and 27 projects have been approved.

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 **£65,120** ESF grant available in Priority 3.

#### 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. In addition, stronger up-front compliance should ensure that only projects that can meet individual expenditure targets should retain grant
- 4.3 It should be noted that in order to comply with the Four Stage Post Approval Compliance Strategy developed for the Scottish Structural Fund Programmes, the Scottish Government requires the completion of 20% project expenditure checks for each grant claim received before any N+2 expenditure declaration for the ERDF and ESF Programmes is made to the Commission. With reference to **Annex 2**, the IAB have included figures for 'Grant Paid to Projects where 20% Verifications have been completed (£)'. Any ineligible expenditure identified during the verification of these claims has also been deducted. On the basis of these figures, the 2010 N+2 targets for both the ERDF and ESF Programmes are on course to be achieved. However, it should be noted that these figures will not become official until the ERDF and ESF Managing Authorities accept all completed verification checks from the IAB and formally declare the appropriate claim taking full account of any identified ineligible expenditure.

#### 5. Changes to Previously Approved Projects

- 5.1 This Committee is asked to formally agree changes to two previously approved ERDF projects.

LUPS/ERDF/2009/3/1/0165 – SETN Phase 2 – University of Edinburgh

A request has been made to change the lead applicant for the above project to the University of Strathclyde.

LUPS/ERDF/2009/3/4/0238 – South Lanarkshire Rural Business Sites – South Lanarkshire Council

The incorrect amount of ERDF grant was requested by the sponsor as a result of including a level of project income in error within the final application. A grant award of £231,638 was the original figure approved at the PMC in March 2010, although the grant required to deliver the project is £271,388. Therefore, an additional £39,750 of ERDF has been requested from ERDF Priority 4.

## 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)**;
- 6.1.5 agree the changes to two previously approved ERDF projects as outlined 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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