



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

Implementation Arrangements Report from the Scottish Government

1. Purpose

1.1 To advise the Committee of the following:

- (i) the new procedures relating to the registration of all organisations applying for Structural Funds under the new Programmes
- (ii) the development by the Scottish Government of detailed National Rules on the eligibility of activities and expenditure
- (iii) the role and function of a Strategic Delivery Body (SDB) in the context of Programme implementation
- (iv) the role and function of the Community Planning Partnerships (CPPs) in the context of Programme implementation
- (v) the role and function of a Global Grant Body in the context of Programme implementation
- (vi) the regulatory requirement to meet financial targets during the operation of the new Programmes (more commonly referred to as N+2 targets)
- (vii) the key actions required under audit and monitoring for the 2007-2013 Operational Programmes.

2. Registration Procedures

2.1 The Scottish Government requires all organisations to register for the new Programmes in order to assess their eligibility to apply for Structural Funds. This registration is only required once for the lifetime of the Programmes.

2.2 Organisations are only required to register with one Intermediate Administrative Body (IAB) and this will cover them for all Highlands & Islands and the Lowlands and Uplands Programmes. The deadline for registration for the forthcoming application round is 5 October 2007.

2.3 Certain types of organisations are exempt from having to submit financial accounts and other documents due to their status. This includes local authorities, FE Colleges, Government Directorates and Strategic Delivery Bodies (SDBs).

2.4 The completed registration form is submitted to the IAB for assessment. Once the IAB is satisfied that the organisation is eligible and its annual accounts, memorandum and articles of association are in order, the registration form is forwarded to the Scottish Government and the applicant organisation notified of

the decision in writing.

- 2.5 The registration form and associated guidance are attached as Annexe 1 to this report.

3. National Rules

- 3.1 The Scottish Government, as Managing Authority for the ERDF and ESF Operational Programmes, has developed 'national rules' in accordance with EC Regulation 1083/2006 Article 56 Para 4, which states:

"The rules on the eligibility of expenditure shall be laid down at national level subject to the exceptions provided for in the specific regulations for each fund. They shall cover the entirety of the expenditure declared [by the Scottish Government to the European Commission] under the operational programme".

- 3.2 The rules take account of the general and respective fund regulations (EC Regulations 1083/2006 (General), 1080/2006 (ERDF) and 1081/2006 (ESF)) and are based on the key principles of real costs and actual project costs. They apply to all projects approved under the 2007-2013 operational programmes.

- 3.3 The purpose of these rules is to distinguish clearly between eligible and ineligible costs, and to ensure that only eligible activity and expenditure features in applications and ultimately claims. While every effort has been made to produce clear guidance on eligibility, there remains an onus on applicants to apply for grant responsibly and reasonably and to ensure compliance – in cases of doubt, clarification should be sought from the respective IAB or the Scottish Government. A detailed breakdown of costs is required with the application to assist project appraisal, confirm eligibility and ensure value for money.

- 3.4 The National Rules are available to applicants along with the application form and guidance notes. The national rules are structured as follows:

- General Rules
- Specific Rules in respect of;
 - Capital Projects (ERDF) – Eligible Costs
 - Revenue Projects (ERDF and ESF) – Eligible Costs
 - Eligible Costs (ESF Specific) – Participant Costs
 - All Projects – Ineligible Costs

- 3.5 These are new rules for the new programmes and it is not necessarily appropriate to compare eligibility between programme periods. However, the PMC may wish to note that:

- there has been a significant reduction in circumstances where in-kind contributions are acceptable;
- match funding must be confirmed (and evidenced) before an offer is made for Structural Fund support;
- central overheads, core costs and administration costs of an organisation are ineligible; and
- lead partners in projects have been reminded of their particular responsibilities.

The intention is to ensure that, as far as possible, Structural Funds rules are

clear, consistently applied and help target support on 'productive' activities.

4. Strategic Delivery Bodies

- 4.1** In a major departure from previous arrangements the Managing Authority has commissioned Scottish Enterprise to act as a Strategic Delivery Body to deliver key strategic projects within ERDF Priority 1, Research and Innovation that will make major contributions to the goals of the Programmes.
- 4.2** Scottish Enterprise will receive a significant proportion of the funding from Priority 1 – the balance being available for competitive bidding. As with all projects, structural funds will support activity that is both clearly additional to the existing activities of the SDB and for which the SDB is the only delivery agent.
- 4.3** Scottish Enterprise will set out its planned activity through three year outcome agreements that will include annually revised annual plans with financial and performance targets. Projects will be reviewed and monitored regularly.
- 4.4** The initial indicative allocation for the first phase of activity has still to be finalised but may account for between the first three to four years allocation against the respective Priorities.
- 4.5** The Monitoring Committee will review the SDB outcome agreement at the meeting on 19th March, when it will also consider the recommendations from the Advisory Groups for the first round.
- 4.6** The SDB arrangements are designed to allow greater levels of confidence and flexibility in the use of structural funds in supporting key investment opportunities in a dynamic and changing environment. They allow a greater degree of responsiveness to meeting new challenges

5. Community Planning Partnerships (CPPs)

- 5.1** Structural Funds will be made available to support CPP's in the Lowlands and Uplands Scotland by contributing to integrated social inclusion and regeneration action plans across the Programme area, coordinated predominantly by the Local Authorities.
- 5.2** Funding will come from ERDF Priority 3 – Urban Regeneration and ESF Priority 1 – Progressing into Employment. Funding will support a maximum of one ERDF and one ESF bid per partnership and will complement the key role of the CPP's in delivering projects supported by a range of other funding bodies.
- 5.3** Local Authorities in the 13 targeted areas will principally be responsible for co-ordinating the submission of CPP applications. These require to demonstrate how the proposed activity will be implemented, indicating who will be responsible for the various eligible components, when the project will proceed, how much the activity will cost and what outputs will be achieved.
- 5.4** The lead sponsor to any CPP bid will be required to justify the contribution of each element to the delivery of the overall ERDF and ESF projects and to demonstrate areas of integration between the two funds. Thereafter the

proposals will be assessed for eligibility, affordability and impact. The bodies responsible for the elements eligible for Structural Fund assistance are also being required to submit applications for detailed assessment in line with the National Expenditure Rules.

- 5.5 The lead sponsor of all CPP bids will be required to ensure that applications remain consistent with those approved elements and that all components of the application including co-finance and planning approval are in place.
- 5.6 In the 1st stage application process, ERDF and ESF bids to complement and support the work of the CPP's have been submitted from all 13 targeted areas. These bids total £21.06m ERDF and £40.50m ESF.
- 5.7 Support documentation will also be required to show the funding streams for the components not being supported by Structural Funds and demonstrate how these will integrate into the overall picture.
- 5.8 This is a new delivery model which will take time to develop fully, and which utilises the CPP's in identifying local needs with coordination coming principally through the Local Authorities. If successful, it would have a major impact on promoting integration between National funds and the Structural Funds in the most disadvantaged locations in the Programme Area.

6. Global Grants Bodies

- 6.1 Article 42 of General Regulation (EC) 1083/2006 permits the managing authority to entrust the management and implementation of a part of an operational programme to an intermediate body. The intermediate body responsible for managing the global grant shall provide guarantees of its solvency and competence in the general domain concerned as well as in administrative and financial management.
- 6.2 The Managing Authority will commission one of the local authorities in the South of Scotland (Dumfries and Galloway Council) to operate a global grant under Priority 4 of the ERDF Programme (Rural Development) for three years initially. Only projects in the South of Scotland meeting the criteria for Priority 4 will be able to bid into this global grant pot. South of Scotland projects will consequently not have access to the competitive funding available under the rest of Priority 4.

7. Financial Targets (N+2 requirements)

- 7.1 The previous 2000 - 2006 programming period involved the requirement to meet financial targets on an annual basis (N+2). This was a challenging requirement given that previous and current programmes were front-loaded and the time it took to build up commitment and therefore expenditure.
- 7.2 During the previous programmes operating in the LUPS area, ERDF targets were met consistently, albeit only by late November/early December each year. In the Scottish Objective 3 Programme 2000 – 2006, ESF tended to meet the annual targets earlier in each year due to the annuality of the funding awards. ERDF was however often hampered by major delays in the implementation of projects, some of which were up to 3 years late in completing and claiming back grant. Many of these should, arguably, not have retained the grant offer, and

stronger compliance is planned by the Scottish Government and IAB to ensure targets are met.

7.3 Article 93 of Regulation 1083/2006 details the principle of automatic decommitment. In essence, Year 1 (2007) budget allocation requires to be paid out and declared to the Commission by 31 December of Year 3 (2009) and so on.

7.4 The financial table provides the indication for the expenditure targets which have to be met by the end of each calendar year:

The regulation allows for an advance of funds in 2007 and 2008 which would lower the figures for 2009 and 2010 and increase 2015. If applicable, updated figures will be provided for the March 2008 Committee.

ERDF N+2 TARGETS		
Year	€ Target	Annual Target Increase €
2009 Target	50,570,825	
2010 Target	102,153,067	+51,582,242
2011 Target	154,766,953	+52,613,886
2012 Target	208,433,117	+53,666,164
2013 Target	263,172,604	+54,739,487
2014 Target	319,006,881	+ 55,834,277
2015 Target	375,957,844	+56,950,963

ESF N+2 TARGETS		
Year	€ Target	Annual Target Increase €
2009 Target	36,307,594	
2010 Target	73,341,340	+37,033,746
2011 Target	111,115,761	+37,774,421
2012 Target	149,645,670	+38,529,909
2013 Target	188,946,177	+39,300,507
2014 Target	229,032,694	+40,086,517
2015 Target	269,920,942	+40,888,248

7.5 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 the targets. The focus on delivery of a significant level of funding under certain priorities by both Strategic Delivery bodies and Global Grant bodies in particular is expected to result in early expenditure. Ensuring that 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, as mentioned previously, stronger compliance should ensure that only projects that can meet individual expenditure targets should retain grant.

7.6 During the previous programme, the Monitoring Committee developed and approved an N+2 Action Plan which was adapted to fit circumstances during the implementation of the programme. It is proposed that such a plan is developed for the new operational programmes to ensure targets are met timeously and that this be submitted for consideration at the meeting of the Committee in March 2008.

7.7 N+2 targets will remain a key element for the new programmes and a key area of involvement by the Programme Monitoring Committee to ensure such targets are met.

8. Audit and Monitoring

8.1 The Managing Authority is charged with ensuring the management and implementation of the Programmes in accordance with the principle of sound financial management.

8.2 The principal monitoring function is to verify that projects are delivered and expenditure declared has actually been properly incurred and defrayed and complies with Community and National Rules (Article 60b of Council Regulation 1083/2006). These will be undertaken by the IAB and the Scottish Government, and will be similar to those currently carried out under the 2000-2006 Objective 2 and Objective 3 Programmes.

8.3 A risk assessment will be drawn up to identify projects to monitor under the terms of Article 60b and the IAB will be required to visit every organisation at least once. This sampling method will be retained for audit. Targets are yet to be finally agreed with the Scottish Government, but currently 30% of the number of projects approved are to be monitored with at least 20% of the expenditure (claimed by the date of the visit) to be checked. Forms and guidance are currently under development.

- 8.4** The new regulations are less specific about the particular levels of “on the spot” checks however, it is anticipated that the Scottish Government’s Verification and Compliance Team will perform a similar assurance function as under the current Programmes.
- 8.5** In addition, the Scottish Government is expected to continue its current practice of requiring supporting transaction lists and randomly selecting claims where applicants are required to submit detailed supporting information, such as invoices and copy payroll extracts.
- 8.6** Under Article 61, the Certifying Authority as part of its responsibilities for submitting payment declarations to the European Commission, will test the effectiveness of the IAB/Managing Authority systems and processes. Wider audit functions will be undertaken by the Scottish Government to fulfil Article 62 of the Council Regulation 1083/2006. This will include verification of the effectiveness of the management and control systems and the submission of an annual control report setting out findings of audits undertaken during the previous 12 month period. This will commence from 31 December 2008 and continue until the end of 2015.
- 8.7** Council Regulation 1083/2006 is less explicit about the various levels of checks required on projects – particularly the eligibility of activities and expenditure. It does distinguish clearly between the responsibilities of the Managing Authority, the Certifying Authority and the Audit Authority. The Scottish Government is committed to ensuring proper and effective use of the funds and, while the precise arrangements for monitoring and audit have still to be fully developed, they are expected to be largely consistent with existing practice.

9. Recommendation

- 9.1** The Monitoring Committee is invited to:
- 9.1.1** note the content of this report; and
- 9.1.2** request the Scottish Government to bring forward an N+2 Action Plan for early consideration.



LOWLANDS AND UPLANDS SCOTLAND PROGRAMMES 2007–2013

Organisation Registration Form

For IAB Use: <div style="border: 1px solid black; padding: 2px; display: inline-block;">Eligible Organisation</div>	YES <input type="checkbox"/> NO <input type="checkbox"/>
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Please ensure that you read the Guidance Note on Registration of Organisation before completing this form.

Organisation Name	
Organisation Type¹	

To enable the IAB to determine whether or not your organisation is eligible to apply directly to the Programmes, please forward a hard copy of the following information to the address noted at the end of this form:

Documents required	Enclosed (Yes/No)
Memorandum and Articles of Association	
A copy of the organisation's business plan, or similar	
List of Board Members , including details of the capacity in which members sit on the Board, e.g. accountant, project management experience, etc.	
Details of organisational structure	
A copy of the most recent audited annual accounts plus previous two years. If the most recent accounts are more than 6 months old, or if they are not audited, annual or endorsed accounts, non-audited or management accounts for the subsequent period may be required.	

If any of the above documents have not been provided, please note the reason in the box below:

DECLARATION	
I agree that this data may be shared with the Intermediate Administration Bodies, the Scottish Executive and its agents, the European Commission, the European Court of Auditors, Audit Scotland and law enforcement agencies.	
Name of Certifying Officer	
Certifying Officer Signature	
Position in Organisation	
Contact e-mail	
Contact Telephone Number	
Contact Address	
Date Submitted	

Once completed, please send a signed hard copy of this form, together with the accompanying documentation indicated overleaf, to the following address:

ESEP Ltd
 Centrum Building
 38 Queen Street
 Glasgow
 G1 3DX

FOR IAB USE ONLY	
Date documents received by IAB	
Date documents checked by IAB	
Checked by	
IAB Officer Signature	
Comments	
Action Taken	
Reason(s) for IAB Decision	
Decision authorised by	
Designation	
Signature	
Date	
Date organisation advised of decision	
Date copy forwarded to SE	

FOR SCOTTISH EXECUTIVE USE ONLY

Date checked	
Checked by	
Signature	

REGISTRATION OF ORGANISATIONS

14 August 2007	1.0	Final	Jim Millard, ESFD
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REGISTRATION OF ORGANISATIONS

Introduction

1. Before accepting applications for support, organisations must first establish whether they are eligible to apply for funds. Eligibility is established via the registration process.
2. Applicant Organisations are responsible for all aspects associated with implementation, monitoring and reporting on projects. This includes application, acceptance of grant, project implementation including cash-flow management, submission of claims, monitoring and reporting progress, monitoring and verification visits and the retention of project documentation for the prescribed period. This includes records confirming that any procurement complied with the Regulations and maintaining a full audit trail vouching expenditure incurred and defrayed.
3. Such responsibilities are onerous. Organisations therefore require significant and sufficient administrative and financial capacity.

Eligible Applicant Organisations

4. There are three main categories of eligible applicant organisations as follows:
 - Public Sector - This group includes Central Government and Non-Departmental Public Bodies; local authorities and related agencies (e.g., local initiatives); the Enterprise Networks; visitScotland; Further and Higher Education Institutions; Communities Scotland and related agencies; Forest Enterprise.
 - Voluntary or Charitable Organisations – Registered/recognised charities, trusts, co-operatives and “not for profit” organisations: (the Charities Act and the Industrial and Provident Societies Act are relevant here). Organisations which directly or indirectly receive over 50% of core funding (i.e., excluding European Funds) from the public sector, or from levies raised by Industrial Training Organisations for training purposes.
 - Joint Ventures (Public/Private Partnerships) - Joint ventures are eligible to apply directly for support where public organisations have more than a 50% share. Where shares are equal, provided the public sector has a veto and assets revert to the public sector if the venture is wound up, the joint venture is eligible.
5. The following are not eligible:

Private Sector - There is no convenient definition of private sector. Essentially, however, this may be taken to be organisations established and operating for profit where these profits accrue to shareholders, partners or sole traders. This includes companies acting in the public interest (e.g., privatised former public utilities, FirstScotrail, Network Rail).

Voluntary or Charitable Organisations - While these will principally be eligible to apply directly for funds, careful consideration must be given to the nature and capacity of organisations to carry out projects. In certain circumstances, organisations may require a 'sponsor' to vouch for the applicant, accept contingent liability for the project and, crucially, the grant and ensure proper implementation, reporting and accounting.

Eligibility Assessment

6. To assist this process all organisations must provide to the IAB:

- A copy of Memorandum and Articles for the organisation
- List of Board Members
- Details of the organisational management structure
- A copy of the most recent annual accounts. If these are more than 6 months old, or if there are no audited, annual or endorsed accounts, unaudited or management accounts for the subsequent period may be required
- A copy of the business plan, or similar.

7. It is important to look carefully at the Memorandum and Articles of organisations new to European Structural Funds. There must be a clear purpose there for the organisation to undertake economic and social development activities.

8. It is also important to consider an organisation's capacity to fund projects and manage and account for them properly throughout the auditable life of the project.

9. Once in place, assets and responsibility are on occasions transferred to trusts or companies with charitable status. While this is acceptable in principle, it can give rise to difficulties and certainly invites further detailed work. It is important therefore that organisations are clear, and committed, on how they intend running projects.

Exemptions

10. All organisations must register. However, the following types of organisations are only required to submit the registration form and not any additional information:

- Scottish Executive
- Other Government Departments
- IDBs
- Local Authorities
- Enterprise Networks
- NGOs / NDPBs
- Colleges

If in doubt, the Managing Authority in the Scottish Executive should be consulted.

Organisation Type

11. Scottish Executive monitoring of projects includes the 'legal status' of successful organisations. In order to categorise organisations once, and therefore consistently, this assessment should be made at registration stage.

The table below sets out the Organisation Types.

Organisation Type	Covering
Further Education	<ul style="list-style-type: none"> • FE Colleges
Higher Education	<ul style="list-style-type: none"> • Universities
SE/HIE Network	<ul style="list-style-type: none"> • Scottish Enterprise • Highlands & Islands Enterprise • Local Enterprise Companies
Local Authority	<ul style="list-style-type: none"> • Councils
Local Economic Bodies	<ul style="list-style-type: none"> • Local economic development companies • enterprise trusts • Chambers of Commerce • Other local economic initiatives
Tourist Organisations	<ul style="list-style-type: none"> • VisitScotland • Other national/local associated bodies
Voluntary Sector	<ul style="list-style-type: none"> • Voluntary and charitable organisations that do not fall under any other type
Central Government Departments/Agencies	<p>Including:</p> <ul style="list-style-type: none"> • SEPA • SNH • Forest Enterprise
Communities Scotland Network	<p>Including:</p> <ul style="list-style-type: none"> • Housing associations • Housing co-ops • Other associated bodies
Sector Skills Councils	<ul style="list-style-type: none"> • Previously known as National Training Organisations
Other	<ul style="list-style-type: none"> • Organisation that do not fall under any other type.