



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

OPTIONS ON FUTURE STRATEGIC PRIORITIES FOR THE ESF /ERDF OPERATIONAL PROGRAMMES

1. Purpose

- 1.1 The purpose of this paper is to make recommendations to the Committee on the allocation of the remaining funding under Priority 1 (“Progress towards employment”) of the Lowlands and Uplands Scotland (LUPS) European Social Fund Programme. In addition, the Committee is asked to agree any associated virement of resources between ESF Priorities. This paper builds on the initial discussions undertaken by this Committee at its meetings held on 18 March and 27 May 2009 regarding potential funding options and future strategic priorities in the ESF and ERDF Programmes following the work undertaken by Fraser Associates. A full analysis of third round Stage 1 ESF and ERDF applications received by the deadline has also been provided. On the basis of existing commitments and declared interest, it is clear that the third application round is likely to represent the final allocation for employability projects and, possibly, for access to lifelong learning projects.

2. Background

- 2.1.1 The third round of applications for funding under the 2007-13 European Structural Funds opened this summer. The closing date for 1st stage expressions of interest was Friday 14 August 2009. A summary of the current financial position in both the ESF and ERDF Programmes and the level of bids received in the different Priorities are listed below.

Analysis of ESF Third Round Stage 1 Applications

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

Priority	Total Grant Allocation* (£)	Approved Grant Commitments to date (£)	Remaining Balance for 3 rd Round (£)	Bids Received in 3 rd Round (£)
Priority 1: Progressing into Employment	100,995,419	83,089,604	17,905,815	55,245,622
Priority 2: Progressing through Employment	83,000,689	17,669,438	65,331,251	30,811,437
Priority 3: Improving Access to Lifelong Learning	35,539,591	13,614,151	21,925,440	8,675,019
Total	219,535,699	114,373,193	105,162,506	94,732,078

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

2.1.2 Of the ESF Stage 1 bids received, there is a good spread across all organisational sectors. These are detailed below in Table 2.

Table 2: Breakdown of ESF Third Round Stage 1 Applications by Lead Sponsor Organisation Type

Organisation Type	Priority 1	Priority 2	Priority 3	Total
Central Government Departments/Agencies	£15,788,884 – 2 Applications	£8,426,250 – 2 Applications	£357,000 – 1 Application	£24,572,134 – 5 Applications
Communities Scotland Network	£0	£0	£0	£0
Further Education	£4,316,594 – 22 Applications	£3,187,079 – 7 Applications	£4,968,476 – 11 Applications	£12,472,149 – 40 Applications
Higher Education	£0	£213,855 – 1 Application	£1,057,500 – 5 Applications	£1,271,355 – 6 Applications
Local Authority	£20,720,569 – 24 Applications	£6,946,202 – 10 Applications	£0	£27,666,771 – 34 Applications
Local Economic Bodies	£1,861,487 – 8 Applications	£4,281,384 – 3 Applications	£0	£6,142,871 – 11 Applications
Other	£1,889,792 – 3 Applications	£874,469 – 3 Applications	£284,049 – 2 Applications	£3,048,310 – 8 Applications
SE/HIE Network	£0	£0	£0	£0
Sector Skills Councils	£0	£0	£0	£0
Tourist Organisations	£0	£0	£0	£0
Voluntary Sector	£10,668,296 – 34 Applications	£6,882,198 – 12 Applications	£2,007,994 – 5 Applications	£19,558,488 – 51 Applications
Total	£55,245,622 – 93 Applications	£30,811,437 – 38 Applications	£8,675,019 – 24 Applications	£94,732,078 – 155 Applications

2.1.3 On the basis of the third round bids received, it is clear from Table 1 that there are insufficient resources in ESF Priority 1 to meet all competing demands and a lower level of Stage 1 bids received in ESF Priorities 2 and 3. Even assuming that not all these bids in the different priorities will progress to a detailed Stage 2 application, may include an element of activity duplication between CPP and challenge fund bids in Priority 1, or would not meet the required quality threshold after advisory group scrutiny, some prioritisation and guidance is sought from this Committee. This will enable the Scottish Government to better manage the expectations of different partners and avoid unnecessary work being undertaken by sponsors if there are limited expectations of them being funded.

2.1.4 Analysis of ERDF Third Round Stage 1 Applications

Table 3: Comparison of Available ERDF Grant with Third Round Stage 1 Applications

Priority	Total Grant Allocation* (£)	Approved Grant Commitments to date (£)	Remaining Balance for 3rd Round (£)	Bids Received in 3rd Round (£)
Priority 1: Research and Innovation	76,758,059	67,142,246	9,615,813	22,637,292
Priority 2: Enterprise Growth	101,821,916	70,439,664	31,382,252	22,136,642
Priority 3: Urban Regeneration	84,590,515	12,874,412	71,716,103	131,422,822
Priority 4: Rural Development	42,608,557	12,130,505	30,478,052	37,087,533
Total	305,779,047	162,586,827	143,192,220	213,284,289

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

- 2.1.5 Of the ERDF Stage 1 bids received, there is a good spread across organisational sectors. These are detailed below in Table 4.

Breakdown of ERDF Third Round Stage 1 Applications by Lead Sponsor Organisation Type

Organisation Type	Priority 1	Priority 2	Priority 3	Priority 4*	Total
Central Government Departments/Agencies	£0	£0	£504,534 – 2 Applications	£807,274 – 3 Applications	£1,311,808 – 5 Applications
Communities Scotland Network	£0	£0	£6,265,138 – 3 Applications	£0	£6,265,138 – 3 Applications
Further Education	£0	£587,779 – 1 Application	£5,698,556 – 4 Applications	£8,449,676 – 4 Applications	£14,736,011 – 9 Applications
Higher Education	£12,034,292 – 15 Applications	£1,914,000 – 3 Applications	£24,410,000 – 5 Applications	£4,960,000 – 4 Applications	£43,318,292 – 27 Applications
Local Authority	£212,000 – 1 Application	£6,974,289 – 10 Applications	£25,369,556 – 28 Applications	£9,645,413 – 13 Applications	£42,201,258 – 52 Applications
Local Economic Bodies	£510,000 – 1 Application	£0	£3,717,000 – 3 Applications	£0	£4,227,000 – 4 Applications
Other	£640,000 – 1 Application	£5,000,000 – 1 Application	£11,585,199 – 6 Applications	£4,967,102 – 3 Applications	£22,192,301 – 11 Applications
SE/HIE Network	£9,241,000 – 7 Applications	£7,194,883 – 4 Applications	£44,540,000 – 5 Applications	£4,572,400 – 4 Applications	£65,548,283 – 20 Applications
Sector Skills Councils	£0	£0	£0	£0	£0
Tourist Organisations	£0	£0	£0	£0	£0
Voluntary Sector	£0	£465,691 – 3 Applications	£9,332,839 – 9 Applications	£3,685,668 – 6 Applications	£13,484,198 – 18 Applications
Total	£22,637,292 – 25 Applications	£22,136,642 – 22 Applications	£131,422,822 – 65 Applications	£37,087,533 – 37 Applications	£213,284,289 – 149 Applications

* Includes bids to Global Grants Body

- 2.1.6 On the basis of the third round bids received, it is clear from Table 3 that there has been a high level of interest in the various ERDF priorities, particularly in the previously under-performing Priority 3. This is predominantly due to a number of bids being submitted which are anticipating the changes in the activity scope to Priority 3 being approved timeously by the Commission.

3. The Competing Demands for Priority 1 Funding

- 3.1 There are 4 significant calls on the funds available in Priority 1, which come to a combined total of **£55.25:**

- i) The Scottish Funding Council have applied, with WoSCoP, for **£3.78m** 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 bids total **£16.56m**.

The initial results of the current evaluation of the CPPs' Plans are positive in terms of the local strategic direction being given and the drawing in of local partners in both the FE and Third Sectors to deliver the Plans. There are also likely benefits in terms of agreeing Single Outcome Agreements and the sustainability of services after the ESF funding element has run out.

- iii) A bid from the Big Lottery for £4 million a year over 3 years starting in 2010/2011. This **£12m** would be to supplement the Life Transitions Interventions for young people and the over 50s. A number of projects, particularly from the Third Sector, use Big Lottery Funding to match with ESF. This application would contribute to improving the synergy between the two funds. There are very obvious advantages for the organisations which could move to a one door option to 100% fund their projects with one reporting and claims system, and the resulting lower audit burden on the individual organisations.

The Big Lottery's Scotland Committee met on 12 August and decided to progress with this application. There may be some overlap between this bid and individual competitive bids under (iv) below.

- iv) Individual Priority 1 competitive project bids from organisations in a number of organisational sectors seeking **£22.91m**. This splits into:
- * £11.21m from the Third Sector;
 - * £4m from Colleges (Additional to the bid at 3(i) above);
 - * £4.16m from Local Authorities in the 13 eligible areas (Additional to the bid at 3(ii) above); and,
 - * £3.54m from local economic bodies and others.

It was hoped that the 3 large bids above would reduce substantially the number of these individual project bids, as one covers CPPs (with whom the voluntary organisations work on delivery), one covers Colleges (which again may also form part of the CPP bids but some sponsors are hedging their bets), and the Big Lottery's bid should help Third Sector bidders who in the past applied to both the Big Lottery and ESF. However, it is clear that partners who are used to receiving ESF directly remain keen on this route, and that some are duplicating activity in case one of the major bids does not go ahead or is not approved. Care will have to be taken to sort out any potential duplication or risk of double funding here.

The Third Sector is clearly an important player in addressing employability issues for the most disadvantaged, and the Government and SCVO are working together to establish a Third Sector Employability Forum feeding into the Scottish Employability Forum and liaising closely on the employability and skills agenda in Scotland.

Options for Increasing Priority 1 Funding Available for Round 3

4. It is clear that, as things currently stand, the Priority 1 bids summarised above (totalling **£55.25m**) cannot be met from the funds now available within the Priority (**£17.9m**, as shown in the table).
5. The Priority 1 figure of funds available can be increased in several ways. First, we can make reasonable assumptions for the level of under-spending by those projects which have already been approved and/or over-programming over the remainder of the Programme. The latter assumption is based on the evidence from previous programmes, which shows that revenue projects such as those funded through ESF do not take up the full grant allocated to them. Committing to over-programming of 5% of the available grant resources would therefore be a prudent course of action. The assumptions on under-spending and over-programming would allow us to increase the funds available to Priority 1 in this round by **£5m to around £22.9m**.

6. Reducing the maximum intervention rate available would allow ESF to fund more projects without increasing the money available. However, it would mean that projects would have to obtain more match than anticipated at a time when match funders are under pressure across the board. At present the intervention rate for every ESF project is the minimum required to allow the project to proceed, and reducing the intervention rate might effectively exclude some excellent projects which cannot bring any further match funding to the table for this round.
7. The only other way to increase the funding in Priority 1 would be to seek the agreement of the Commission for virement of funds from Priority 3 and/or Priority 2 into Priority 1.
 - * There is evidence to support a virement from Priority 3 into Priority 1, based on the recent evaluation study undertaken by Fraser Associates and circulated to members, to match the current LUPS ESF Programme against what is required to address the current economic crisis. If we were to vire most of the remaining Priority 3 funds into Priority 1, after funding any particularly high quality projects in this round, this would provide an additional **£20m** for Priority 1 in the current round, making around £42.9m available for allocation.
 - * The case for virement from Priority 2 is less clear-cut. The Priority is aimed at improving the skills of existing workers, particularly those with low skills and low pay, often working closely with employers and sector skills and training bodies. It also widens access to Modern Apprenticeships and assists those under threat of redundancy. In addition, funding under Priority 2 can be used to provide skills for the individuals who have been given a 3 or 6 month job under the DWP Future Jobs Fund contracts. The Fraser Associates evaluation found that Priority 2 gave a good fit with the requirements of the Scottish economy, even during the current crisis, and that the widened scope to cover workers at threat of redundancy plus any projects offering skills training to those in temporary employment should lead to more projects coming forward. However, there is a sizeable level of funding (£65m) remaining within this Priority. If some of this amount (around **£13m**) were to be vired into Priority 1, this – together with the other actions noted here - would mean that approximately **£55.9m** would be available in Priority 1 to fund all 4 groups of applications in paragraph 3 in full.
8. Such a virement of funds into Priority 1 could be seen as producing a somewhat unbalanced ESF Competitiveness Programme - with nearly 60% of the funding going into employability measures. This would be at a time when the chances of any participants gaining a job as a direct result of the interventions at this point in the economic cycle would be low, and the link to long term economic development from a major move of skills and lifelong learning funding into activity for the unemployed harder to immediately demonstrate.
9. Some of the applications under Priority 1, particularly those to provide activity for individuals recently leaving school, or recently redundant, would seem to be a move away from assisting the most disadvantaged and inactive, and towards using ESF for job-ready people until the jobs market starts to pick up again. The key reference is Article 3 of the Community's ESF Regulation, which allows for *“enhancing access to employment and the sustainable inclusion in the labour market of job seekers and inactive people, .. in particular long term and youth unemployment, encouraging active ageing and increasing participation in the labour market; and reinforcing the social inclusion of disadvantaged people with a view to their sustainable integration in employment and combating forms of discrimination in the labour market.”* It could be argued that this is wide enough to allow the current Scottish LUPS Operational Programme to be interpreted as being able to help people who are coming onto the unemployment register but unable to get another job or a College place as a prelude to a job to avoid them becoming long term unemployed and disaffected. In

addition, helping these people now should ensure that they are not simply pushing the more disadvantaged even further away from any prospect of employment. This would have to be weighed against a view that some of the immediate unemployment increase is currently being addressed through national schemes, and the value of using ESF in addition would be slight and would have to be clearly justified.

Competing Projects for ESF Priority 1 Funding

10. Ideally, the final allocation of ESF Priority 1 should go to projects which will either leave a legacy in terms of a step change in practice or process, or prove the effectiveness of particular approaches to employability for disadvantaged key groups. This would allow the remaining funders to take clear decisions on which organisations and projects will be the most effective to channel support to in the future in terms of value for money and outcomes. However, this may be outweighed by the need to take immediate action to offer training activity or employment support to a range of people who are unemployed because of the current recession, rather than those with substantial individual barriers who require significant support even in a more benign labour market. If the Committee takes this latter view, we may need to propose some changes to the current ESF Operational Programme, particularly to the financial tables, to make available sufficient funds for all the groups of projects bidding in this Round.
11. As set out in the Options Paper at the last PMC meeting on 27 May 2009, arguments can be made to support closing Priority 3 and vireing funds into Priority 1. Some substantial legacy projects have already been funded under Priority 3. In the current round, first stage bids of **£8.67** million have been received, and the highest quality ones could reasonably be funded before vireing funds from this Priority. In the current climate (and for the next few years), it is unlikely that access to lifelong learning will be a major barrier to entering employment or improving skills for the bulk of the unemployed in Scotland. Neither the English nor the Welsh ESF Programmes have a Lifelong Learning Priority. The funding available here to be added into Priority 1 would be approximately, **£20m**. Taking this action alone would not allow for all the employability proposals listed in paragraph 3 to be funded.
12. Previous ESF Programmes have largely failed to encourage projects to prepare exit strategies from reliance on ESF funding. (This has been clearly borne out in the evaluation undertaken by Hall Aitken of the first ESF projects in the “Shadow Round” of the current Programme). This would suggest deciding now that further funding for challenge projects should be made conditional on having a clear exit strategy showing that the project is actively seeking alternative funding after the end of the ESF funding and that participants will not be dropped at the end of the project.
13. As also noted above, consideration could be given to restricting access to this round’s ESF Priority 1 for other College and Local Authority bids if they are also seeking funding directly from the larger CPP or Scottish Funding Council bids.

Next Steps

14. At the May LUPS Programme Monitoring Committee (PMC) meeting a decision was taken to allow the full range of 1st stage bids to come forward across all the ESF Priorities. The full picture of the competing bids is now available as shown in paragraph 3 above. It is important for the Committee to take decisions on which groups of projects should be allowed to work up the detailed 2nd stage proposals that are required by 8 October 2009. It would obviously not be acceptable to partners for the PMC to encourage all the bidders to progress with their bids without action being taken either to increase the funds available under Priority

1, or to restrict the projects which go on to fully work up their bids and confirm their match funding.

15. At the 4 September PMC meeting in Glasgow, to help members considerations, representatives of the 3 large projects, The Big Lottery, the Funding Council, and the CPPs, will make brief presentations to the Committee on the value added and the rationale for using ESF to fund their employability bids.

Recommendations

16. The Committee is invited to approve the following recommendations:
- * Over-programming of 5% should be applied to Priority 1 adding an additional £5 million;
 - * After any high quality Priority 3 projects from the current round have been funded, the remaining funds should be vired into Priority 1 (paragraph 7) adding an up to an additional **£20 million**;
 - * ESF Priority 1 should be opened not only to those with multiple barriers to getting into employment but also to those who are much nearer being job-ready but are currently unemployed; and,
 - * delegate to the Scottish Government to take forward any discussions with the Commission regarding any changes to the Operational Programme which may be required.
17. The Committee is invited to consider also approving the following recommendations:
- * whether some Priority 2 funding (approximately up to **£13 million**) should be vired into Priority 1 (paragraph 6);
 - * Colleges and Local Authorities that have submitted separate bids would be advised to work as part of the College or CPP strategic bids (paragraphs 3(iv) and 13); and,
 - * That approval of future applications be made conditional on having a clear exit strategy showing that the project is actively seeking alternative funding after the end of the ESF funding and that participants will not be dropped at the end of the project (paragraph 12).

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