ESF AND ERDF PROGRAMME PERFORMANCE AGAINST THE OPERATIONAL PROGRAMMES

PURPOSE OF PAPER

1. This paper assesses the progress of the ESF and ERDF programmes in Scotland in delivering against the objectives and goals set out in the Operational Programmes. Alongside updates from HITC and PMC members, it is intended to support open discussion on the direction of those programmes and whether that direction remains relevant in light of current performance, and changes to socio-economic context.

DECISIONS REQUIRED

2. Members are invited to:
    - Make observations on progress against Operational Programmes' goals and objectives
    - Consider how the reported progress and issues impact on future planning

STRUCTURE AND METHOD

3. The paper draws on macro-indicator analysis, on programme level monitoring information such as monitoring of commitments and targets, and on extensive dialogue with Lead Partners and scheme leads to capture up-to-date delivery information. It is split into sections:
    - Section 1 outlines the financial commitments and expenditure to date.
    - Section 2 gives detailed analysis and commentary against the delivery of each programme, and sets out the prospects for each area delivering against the Operational Programme.

EXECUTIVE SUMMARY

4. Delivery of the European Social Fund (ESF) and European Regional Development Fund (ERDF) programmes have continued to be delivered against the respective Operational Programmes. The changes to the programmes agreed during 2017 continued to be rolled out by Lead Partners.

5. In February 2018, the MA launched a call for new applications and extensions to previously approved Strategic Interventions (SIs) and Operations. This was originally intended to be completed before the UK leaves to EU, to ensure that all activity would be covered by the guarantee issued by UK Government in the event of the Withdrawal Agreement not being agreed. Since then, the guarantee has been extended to cover projects to 2020. Extensions and new operations have continued to be considered and approved – to date, £497million[1] has been approved – however the timetable has been relaxed to continue to consider proposals into the new year as these would continue to be assured of funding to the end of the programmes.

[1] At 1 May 2019

6. In July 2018 the European Commission (EC) carried out an audit that identified serious deficiencies in the MA's management and control system for the ESF, and serious concerns about the quality of information provided by LPs. As a result, in early 2019 by the EC initiating a "pre-suspension procedure" for interim payments under the ESF.

7. This means that the EC will not pay any claims from the MA for ESF payments, including claims already submitted, until the issues identified by the audit have been resolved. As this affects how the MA claims money from the EC, it indirectly affects how LPs claim money from the MA. The MA will continue to make payments to LPs whose claims are not affected by the issues highlighted in the audit report.

8. At the end of this year, the programmes will be judged against both the N+3 expenditure target as at the end of 2017 and the Performance Framework. Performance Framework is a series of physical and financial targets to be delivered by 2018 and 2023, and the Performance Reserve is over €50 million of the ESF and ERDF grant allocation which is held back and can only be accessed if sufficient progress has been made towards the 2018 Performance Framework targets.

9. If there is not sufficient progress, each priority, at programme area level (i.e. H&I or Rest of Scotland), could lose the Performance Reserve outlined in the Operational Programmes, with this money potentially being lost to that priority and reallocated to more successful areas if the targets are not met. Progress is continuing to be monitored and the MA is working closely with Lead Partners to maximise the expenditure and activity reported but there is a significant risk in a number of areas that these targets may not be met.

10. The MA continues to support Lead Partners to deliver projects and submit claims. There has been some improvement in the quality of evidence provided, but there remain some concerns that evidence is not being provided timeously or fully. The MA has met with Lead Partners across the programmes, continued to communicate widely across all Lead Partners and taken action to respond to questions raised by Lead Partners to clarify and resolve the requirements of any issues which are limiting the submission of claims.

11. In addition to the regular meetings with Lead Partners, the MA is also planning to host work-shop aimed at providing dedicated support to Lead Partners. Planning for the work-shops is at an early stage. However, the MA will contact lead partners in due course with details and invitations to attend. This work will be led by the new Training Manager.

12. Recruitment. Since the last update in November 2018, the MA has recruited a number of addition staff, including a new Head of the Managing Authority. The Governance and Stakeholder Team has also appointed a new Team Leader, a new Training Manager and a new Evaluation Manager.

Decisions Required

Members are invited to

- Make observations on progress against Operational Programmes' goals and objectives
- Consider how the reported progress and issues impact on future planning
- Consider requirements for future progress reports and updates.

PMC SECRETARIAT
3 June 2019

SECTION 1: FINANCIAL PROGRESS

1a. European Regional Development Fund
(at 1 May 2019)

	Programme value (€)	Committed (€)	% of Programme Committed	Paid Claims (€)	% of Programme Claimed
H&I	**104,658,615.00**	**83,341,939.59**	**80%**	**6,365,830.32**	**6%**
01	17,616,795.00	12,882,588.60	73%	665,859.84	4%
02	22,934,781.00	23,164,234.42	101%	0.00	0%
03	27,315,325.00	17,601,519.71	64%	2,384,647.60	9%
04	23,732,912.00	16,159,897.76	68%	1,462,838.61	6%
06	10,871,795.00	11,234,478.48	103%	1,230,538.09	11%
12	2,187,007.00	2,299,220.60	105%	621,946.17	28%
LUPS	**347,783,180.00**	**260,622,588.58**	**75%**	**37,431,976.87**	**11%**
01	87,983,952.00	47,649,277.33	54%	9,111,722.65	10%
03	118,973,986.00	105,170,838.57	88%	13,522,727.66	11%
04	94,356,289.00	64,410,277.04	68%	8,017,359.76	8%
06	39,651,322.00	36,306,475.11	92%	4,864,973.81	12%
12	6,817,631.00	7,085,720.52	104%	1,915,192.98	28%
ERDF	**452,441,795.00**	**343,964,528.17**	**76%**	**43,797,807.19**	**10%**

1b. European Social Fund
(at 1 May 2019)

	Programme value (€)	Committed (€)	% of Programme Committed	Paid Claims (€)	% of Programme Claimed
H&I	**76,598,544.00**	**30,431,075.06**	**40%**	**5,373,424.48**	**7%**
08	23,938,219.00	9,800,125.12	41%	2,565,093.80	11%
09	22,258,339.00	11,073,878.85	50%	375,163.19	2%
10	28,470,368.00	7,430,985.29	26%	1,860,230.47	7%
12	1,931,618.00	2,126,085.80	110%	572,937.02	30%
LUPS	**343,617,686.30**	**200,941,894.56**	**58%**	**43,295,841.81**	**13%**
08	126,810,033.00	90,096,970.69	71%	16,720,617.63	13%
08a (YEI)	51,014,108.30	52,926,093.13	104%	15,158,500.88	30%
09	65,800,132.00	29,381,775.69	45%	1,247,076.20	2%
10	93,677,335.00	22,332,945.64	24%	8,495,956.08	9%
12	6,316,078.00	6,204,109.42	98%	1,673,691.02	26%
ESF	**420,216,230.30**	**231,372,969.62**	**55%**	**48,669,266.30**	**12%**

SECTION 2: PERFORMANCE IN DETAIL

2a. European Regional Development Fund

Notable Issues

1. Compliance: Lead Partners have underestimated the resource required to meet the compliance commitments and requirements of the Programme – this was particularly relevant when claiming payment/support for SME's. This has resulted in a delay in claims being submitted and further delay in the claims being verified by the Managing Authority. Payment is therefore delayed.

2. Financial performance: Progress to meet financial targets is behind schedule in all priority areas with a clear delay between committed and delivered expenditure. However, the Managing Authority is working with Lead Partners to accelerate the submission of validated claims.

3. Timing: There has also been a slower start in the early years of the Programme, which as detailed earlier, has impacted on the expected rate of expenditure. With the continued support of the Managing Authority, progress against operations – particularly financial targets – is expected to improve significantly during Phase 2.

Progress to Date

ERDF Priority 1: Strengthening research, technological development and innovation

4. Progress continues to be slow both in terms of commitments and payments. £52.2.m ERDF grant has been committed to date to approved operations which falls short of the expected level of commitments at this stage due to the lack of operations submitted. £8.4m ERDF grant has been paid out which at this stage of the Programme is much lower than expected. Scottish Enterprise (SE) and Highlands & Islands Enterprise (HIE) are working with SME's to support innovation through research and technical development to strengthen economic development. This activity should significantly improve financial performance.

ERDF Priority 2: Enhancing access to, and use and quality of, information and communication technologies

5. Through 2018, progress on the mobile infill, providing an important element of connectivity through areas not currently serviced effectively, if at all, has been good with significant work carried out by Scottish Futures Trust and Scottish Government to develop a programme of work with significant capital expenditure committed through 2019. The Managing Authority will work with the Lead Partner to ensure that the capital expenditure is spent during 2019. Committed expenditure £20m is under review and it is anticipated that the full allocation will not be required, no grant to-date has been paid out.

ERDF Priority 3: Enhancing the competitiveness of small & medium sized enterprises

6. Good progress with commitments to date with £106m committed to approved operations. This includes an additional award of £30m to the SME Holding Fund due to an increase in demand for investment finance for SMEs. To date £13.7m has been paid out but discussions with Lead Partners have shown that there are further claims in the pipeline. Following dialogue with Lead Partners, the Managing Authority is content that full commitment is expected with expenditure targets being realised.

ERDF Priorities 4 (Supporting the shift towards a low carbon economy in all sectors) and 5 (Preserving and protecting the environment and promoting resource efficiency)

7. There has been good progress in terms of commitments with SI approvals totalling £101m with operation approvals for £95m.

8. Progress under these priorities has been good in terms of the range of activity supported; for example, combining renewable energy generation and storage solutions with promoting and facilitating the promotion and uptake of low carbon (and active) travel options. Much of this is implemented through ‘Challenge Funds’ and Grant Schemes. The associated lead in time means reporting progress and outcomes in claims lags behind the actual expenditure and achievements. On a positive note, commitments to Low Carbon Transport Hubs have exceeded expectations – and the Phase 1 ERDF allocation – with interest in Phase 2 remaining strong.

9. Scottish Natural Heritage also lead on Green Infrastructure, which is progressing well. Again the largely capital expenditure has resulted in a lag from commitment to claims, but 2018 saw significant advances in both expenditure and outputs achieved, although the full claims have not yet been submitted to the MA.

10. The final element, resource efficiency, continues to perform well – though more slowly than ideal. Outputs reflect the significant commitment that Zero Waste Scotland, who lead on this element of the Programme, have made in engaging with business and communities throughout Scotland. This has resulted in a healthy uptake in the Highlands & Islands region.

11. Commitments in Transport projects have increased to 100% in both areas, but remain lower for Green Infrastructure and Low Carbon Infrastructure Transition Programme in the H&I region than the rest of Scotland. Green Infrastructure SI has not committed any funds in the area but have “provisionally awarded funding to a H&I” project, LCITP projects are at an earlier (“development”) phase in the region than anticipated, exacerbating the lag seen in the rest of the programme.

12. The Spend in all three (Transport, Green Infrastructure and Low Carbon Infrastructure Transition Programme) in H&I is significantly behind the rest of

Scotland and expenditure spend in H&I is less than 10% of the spend in the rest of Scotland in each area. This appears to be a reflection of the delays these SIs had in committing funds and the MA is continuing to work with lead partners to increase the rate submission of claims.

13. A slower start in the early years of the programme has resulted in a lower rate of expenditure than initially envisaged. However the range and number of outputs reported continues to suggest that, whilst the Managing Authority will continue to work closely with the organisations leading on delivery of this activity, there are no specific issues to address at this point.

2b. European Social Fund

Notable Issues

14. Compliance. This continues to cause significant challenges to lead partners, across all priority areas. The complexity of information required to ensure compliance with the Programme has been under estimated by lead partners. The documentary evidence required to verify claims lacks the level of detail and robustness to support the approval of the claim is one aspect impacting on Leader Partners and the Managing Authority. Lack of robust, and appropriate, evidence to support the claim has also impacted on delivery of operations and the number of claims approved.

15. Linked to compliance, the level of resource in terms of processing the claim has also been underestimated by lead partners. These challenges have resulted in delays in implementing strategic interventions and operations, impacting on physical and financial, targets, which has also led to an underspend and reduction in numbers in phase one.

16. Other factors impacting on delivery include prolonged development and procurement exercises, delays in recruitment of experienced staff.

17. To support Lead Partners with the delivery of operations, the Managing Authority is providing advice and support to Lead Partners, working closely with them to agree realistic timescales and milestones, undertake system and verification checks and to support and encourage Lead Partners to upload all eligible claims onto EUMIS.

Progress to Date

ESF – Priority 1 - Supporting Sustainable and Quality Employment and Supporting Labour Market Mobility

18. The employability pipeline is a five stage process which allows constructive engagement for those who feel unable or ill prepared for the transition into employment. The employability pipelines have been rolled out across Scotland for the 2014-2020 programme. The pipeline are locally tailored, and Programme rules specify that participants must have a minimum of two barriers to employment or progressing in the labour market. Delivered by Local Authorities and Skills Development Scotland, delivery is undertaken through a mix of in-house delivery, challenge funds and procurement. Delivery of the operations was slow to start but pace and momentum of has improved considerably since the pipelines commenced in 2015. At the end of 2018 the priority has 65.57% committed at the level of strategic interventions and 59.28% at the level of operations.

19. During delivery of phase one activity many lead partners have experienced a number of issues including an under estimation of compliance requirement and lack of resources to deal with the complexities of compliance; under estimation of the level of documentation required to evidence participant eligibility and results; delays in procurement processes and lack of interested bidders (largely due to match

funding issues) and lead partner being new to ESF activity and faced several delays to implementing their strategic interventions resulting in a shorter time to achieve physical and financial targets.

20. This has led to underspends and a reduction in numbers across some strategic interventions during phase one.

21. Despite the above issues, financial and physical progress against the performance framework has been positive in this priority. The Performance Framework targets have been achieved for both the More Developed and Transition region hitting in excess of 80% of milestones achieved for all targets.

ESF – Priority 2 - Promoting Social Inclusion, combating poverty and any discrimination

22. Overall commitment and progress has been much slower on promoting social inclusion and combating poverty than in the employability pipeline. At the end of 2018 only half of this priority is committed at strategic intervention level (50%) with 47.4% committed at operation level.

23. Support under this Priority is also delivered at Local Authority and at Scottish Government national level. However ten local authority lead partners chose not to apply for their indicative allocation and others have selected not to extend their activity for a Phase Two. Compliance is the main reason given for this lower uptake of funds.

24. For those operations which did commence in 2016 a number of factors have contributed to the slow pace of delivery including, prolonged development and procurement exercises; lack of recruitment of experienced staff and incorrect evidencing within the priority. Many partners have been evidencing multiple barriers rather than evidencing of household type

25. The Managing Authority has worked closely with Lead Partners to provide advice and guidance regarding participant eligibility; agree milestones, undertake system and verification checks and encourage the upload of all eligible participant and other outputs onto the EUMIS management information system.

26. The performance framework monitoring highlights achievement of two of the output indicators in the Transition region but only 20.3% of the 2018 milestone has been achieved in expenditure. To compare with the More Developed Region only the Deprived or Fragile Communities Supported has been achieved with Disadvantaged participants in workless households and expenditure being less than 65% of the 2018 milestone.

ESF – Priority 3 - Investing in Education, Training and Vocational Training for Skills and Lifelong Learning

27. The delivery of higher level qualifications aligned with the needs of growth industries and sectors in Scotland is supported under the ‘Developing Scotland’s Workforce’ (DSW) intervention delivered by Scottish Funding Council and Skills

Development Scotland. DSW was developed to create additional learning places linked to key sectors; Develop a new curriculum addressing the workforce skills gaps; Strategically expand Scotland's Modern Apprenticeship programme; Create a new work-based learning approach through Foundation Apprenticeships (starts at school) and support Advanced Apprenticeships (post-school).

28. Scottish Funding Council (£11.9m) and Skills Development Scotland (£15.7m) are responsible for delivery of this intervention with activity commencing from 2015. In the first phase of the Programme for both DSW strategic interventions, higher level skills ambitions were lower than anticipated. The Managing Authority has worked with the Lead Partners to address this in the second phase and these targets have been significantly increased. In particular targets for the transition area were less ambitious than the Programme targets. However, as participants in the Transition area are leaving school with lower levels of qualifications than anticipated many of the training courses planned for the earlier phase of the Developing Scotland Workforce intervention are “access” courses which are designed to lead participants into higher level degree courses in the future. Therefore although in the short-term targets are lower, in the longer-term the 2023 targets should be met.

29. At the end of 2018 this priority is actually over-committed at the level of strategic intervention i.e. 104.39% but under-committed at the level of operations i.e. 23.49%. The MA is working with the two Lead Partners to submit their phase 2 operation applications. The approval of the strategic interventions for phase 2 has taken longer than anticipated.

30. The MA worked with the Lead Partners to encourage them to be more ambitious in phase 2 with regard to aiming for higher level skills. The operation applications should be approved during 2019 taking this priority to full commitment.

31. Claim submission and performance reporting has been poor due to the slowness of claim being submitted and subsequently verified and paid. The Managing Authority has been working closely with the two Lead Partners to ensure that compliance and verification issues can be addressed. This is starting to have a positive impact on the submission of claims but progress continues to be slow as Lead Partners are working to clear the backlog.

ESF – Priority 4 – Youth Employment Initiative

35. The Youth Employment Initiative in Scotland supports young people into employment and into additional learning places. Scotland committed £59m to 15 operations. The Managing Authority faced a number of challenges in committing all the YEI funds. This was largely due to a lack of clarity from the beginning about the way in which eligibility, unit cost models and audit rules would apply to YEI. However some of the difficulties also stemmed from the nature of youth unemployment in South West Scotland, in particular its close links to other forms of unemployment, poverty and deprivation in a formal industrial area; and the policy focus for Scotland which perhaps does not align well with the tight focus on fairly immediate and sustainable results for the individual participants.

33. Other challenges which affected the commitment of YEI funds include not being able to target pre NEET clients; key lead partners not taking up their YEI funds due to the geographical nature of the programme or wanting to focus its efforts on the ESF funded employability pipeline activity. Perhaps the most important challenge has been the significant reduction in the youth unemployment rate in the West of Scotland compared to when the programme was first designed.

34. The MA worked closely with lead partners to address compliance issues to maximise spend under this programme. However difficulties remained which has resulted in partners submitting change request documentation to reduce or decommit funds citing lack of match funding, the impact of a decrease in youth unemployment and issues arising from audit and compliance requirements. One lead partner withdrew their full amount of funding due to compliance issues which was a blow to the programme.

35. With the ongoing difficulties the expenditure and achievement of outputs/results remains low for this Programme. Although the Programme finished in December 2018, many lead partners continue to be behind in terms of their claim submissions therefore we cannot report the final results until all claims have been submitted.