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Minister for Just Transition, Employment and Fair work

European Structural Funds Update: FINANCIAL RISKS, PROGRAMME PERFORMANCE AND CLAIMS POSITION

Purpose and Priority

1. **Routine.** In relation to the endorsement of various approvals for changes requested by our structural fund partners at regular 'MAAP' meetings, this provides an update on the current position of the two structural fund programmes (European Social Fund and European Regional Development Fund) and the utilisation of remaining allocations in particular.

Background

2. During 2022 our European structural fund programmes have received, checked and paid out 64 individual claims from delivery partners, and we have paid out over £80m to them. We have submitted re-imbursement claims to Brussels totalling some €172m (including some claims held over from previous years). The ESF suspension was finally lifted and we have a rigorous programme in place to complete our work and close both programmes. We must do this is a way which is fully compliant with EU regulations but which also maximises the funds returning to Scottish Government.

Forward Look

3. **Risks:** We have a tight schedule to maximise the amount of funding we can successfully reclaim from the European Commission (EC) by the strict deadlines for closing the European Structural Fund Programmes. The key risks to the SG budget are that:
   - We fail to pay out valid claims on time and therefore are unable to be reimbursed by the EC
   - We suffer 'corrections' or penalties imposed by the EC for errors
   - Unit cost deficit (the overall difference between what we pay out to ESF partners and the reimbursements under the unit cost model)

4. Key closure dates:

- All projects must physically end by 30 September 2023
- All claims to be submitted by our partners to the SG Managing Authority by 31 January 2024
- All verified claims to be paid by SG to our partners by 20 June 2024
- Final request for re-imbursement by SG to EC by 31 December 2024
- Final Accounts to be submitted to EC by 15 February 2025
- Managing Authority (ESFSC division) will formally close on 31 March 2025

5. Current Claim values

Table 1

	ERDF (£m) (Sept – 22)	*ERDF (£m) (Dec-22)	ESF(£m) (Sept-22)	*ESF (£M) (Dec-22)	Total (£m) (Sep-22)	Total (£m) (Dec-22)
Value of approved projects	318.7	**316**	317.7	**314.4**	**636.4**	**630.4**
Claims paid out to partners	123.7	**126.5**	117.5	**125.1**	**241.2**	**251.6**
Claims currently being checked	14.8	**19.8**	45.5	**42.8**	**60.3**	**62.6**
All future claims forecasts	146	**121.8**	134.1	**110.8**	**280.1**	**132.6**
Estimated gap between value of projects and all claims by 2024	34.2	**94.8**	20.6	**60.3**	**54.8**	**83.6**

***Figures as of 16 December.**

6. Utilisation of allocations and de-commitment risk

Table 1 shows that, as at 16 December, potentially *£83.6m* of allocated funds will not be utilised by the end of the programmes. The reasons for this appear to be various including over-optimism at the start of the programme, a reduction in the requirement for projects and activities (e.g. employment-related schemes) and the relative attractiveness of other sources of funds.

[redacted]

You may recall, for example, the recent MA Approval Panel (MAAP) submissions, 16 November, 5 October and 24 August, in which many LP's have sought approval to reduce their grant allocations. The requests to reduce grant funding are sought by our partners following their internal reviews of the level of continued demand for ESF and ERDF funds.

Many of the activities supported through the programmes were launched in 2015 when the economic, social and financial landscapes were significantly different from those now impacting all current ESF and ERDF funded activities. As a consequence of the changing social and economic landscape, the demand for ESF and ERDF funded activities continues to diminish with many partners now seeking approval to reduce their funding allocations.

As they continue to review their grant allocations, the current pattern of seeking approval to reduce their grant funding will continue as the Programmes move towards closure. While these reductions represents an opportunity lost, it will also minimise the financial risk to the Scottish Government by reducing the any funding shortfall that would have to be borne by the Scottish Government at the end of the programme.

7. 'De-commitment'

The Scottish Programmes have suffered 'de-commitments' (i.e. cuts) to our allocations in recent years as a result of not achieving the in-year spending targets. [redacted]

8. Attempts to maximise use of allocations

The Managing Authority has repeatedly asked partners to propose enlarging their existing projects and to submit new ones for approval. Due to the very tight eligibility criteria set by the EC, and the short time left to complete projects it appears that no new projects can be taken forward using European structural funds.

We have engaged with our partners to consider potential projects to deliver: the de-carbonisation of rail, zero emission buses and an innovation hub at Dundee University. Unfortunately these projects were either not eligible or not able to be completed by the deadline. A full summary of our engagement with LP's is attached at **Annex A.**

9. Summary

The ERDF and ESF programmes, while payments are no longer 'suspended' by the EC, have a considerable task to receive, verify, pay out and reclaim all the funds for existing projects. Both programmes continue to shrink in value, but this may not have any material budgetary affect at the end of the programmes.

Having sought to maximise use of the remaining allocations, given the financial risks around closing the programmes by the deadlines, the MA proposes to concentrate its efforts on checking, paying out and claiming re-imbursements from the European Commission. Lines can be deployed to rebut criticism of the level of allocations utilised in Scotland as follows:

- The total spend of the programmes will not be known until late 2024 (due to the extensive checks and adjustments required by EU funding).
- The current position here is not dissimilar from that south of the border. England's Managing Authorities have not utilised its full allocation for either programme.
- Where projects are now reaching completion, the 'underspends' compared with the original anticipated spend, are in many cases a result of well-managed, tightly controlled and fully compliant projects..
- The economic context in which these projects are now being completed is very different to that when they were first set up some 6-7 years ago. For example the participation in the labour market is much greater than at the out-set of the programmes.
- COVID-19 continues to impact on both programmes as demand for ESF & ERDF services and projects struggle to recover from the pandemic.

10. Recommendation

That the information provided is noted, including that the Managing Authority will continue to maximise the claims for reimbursement from the European Commission up to the deadline in June 2024.

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European Structural Funds and Subsidy Control division
21 December 2022

Copy List:	For Action	For Comment	For Information		
			Portfolio Interest	Constituency Interest	General Awareness
[redacted]					X X

[redacted]

[redacted]

ANNEX A

MANAGING AUTHORITY UPDATE: EFFORTS TO UTILISE UNCOMMITTED ERDF

1. In July 2022 the Managing Authority issued a letter to all Lead Partners notifying them of a sum of approx. £48m ERDF which remained uncommitted and urged them to apply for this funding to ensure maximum take-up of the funds by Programme closure. (N.B. The amount of uncommitted ERDF varies according to the £/€ exchange rate and the level of de-committed ERDF costs).

2. As no responses to this letter were received, the Managing Authority initiated discussions with a number of SG contacts to ascertain if there was any planned spend which could be assisted by ERDF.

3. This led to discussions on three projects as detailed below.

University of Dundee – Innovation Hub

As part of the Tay Cities deal, the University of Dundee is creating an Innovation Hub to grow the biomedical cluster in Dundee and assist the creation of new SMEs. This activity is eligible within the ERDF Programme.

Unfortunately the timescales for the development of the Innovation Hub are not aligned to Programme closure timescales with only site clearance being achieved by the relevant date. As this is not an eligible output for ERDF it was not possible to take this proposal any further.

Transport Scotland – Scottish Zero Emission Bus Challenge Fund

This is a £120m programme of bus decarbonisation with £21m being spent within the current financial year. The £21m relates to expenditure committed through the bus challenge fund in the last financial year. Applications to the fund cover both the delivery of buses and charging infrastructure. As buses are not currently eligible within the ERDF Programme the Managing Authority asked the EC if there was any possibility of introducing this activity to the Programme.

The EC confirmed that although it would be possible to introduce new eligible activity it would not be possible to apply this retrospectively. This effectively meant that the £21m would not be eligible as the expenditure had been committed prior to any Programme changes being approved by the EC.

Transport Scotland – Rail Decarbonisation scheme

The rail decarbonisation action plan is an ambitious plan to decarbonise passenger rail services and continue to reduce carbon emissions. However, there are no elements of the rail decarbonisation scheme which will be delivered within the Programme deadlines. One potential area for funding discussed was electricity feeder stations which is part of a £120m investment to add resilience and capacity to the rail network. Six feeder stations are currently being purchased.

The feeder stations will not be complete by the Programme deadline. Also this type of infrastructure activity is not currently eligible within the ERDF Programme and as the feeder stations have already been ordered, the expenditure has been committed, therefore the same retrospective issue would apply as with the bus challenge fund.

4. Therefore despite these efforts no new activity has been identified to utilise the remaining ERDF. However, given the tight closure deadlines for the Programme and amount of funding still to be claimed the focus of the Managing Authority in the remaining 18 months needs to be ensuring that claims are submitted, verified and paid by closure deadlines to ensure maximum reimbursement for SG from the EC.