

To: Minister for Just Transition, Employment and Fair work

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

1. Risks

We have a tight schedule to maximise the amount of funding we can successfully re-coup from the 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)

2. 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-imburement by SG to EC by 31 December 2024
- Final Accounts to be submitted to EC by 15 February 2025

3. Current Claim values

	ERDF (£m)	ESF (£m)	Total (£m)
Value of approved projects	318.7	317.7	636.4
Claims paid out to partners	123.7	117.5	241.2
Claims currently being checked	14.8	45.5	60.3
All future claims forecasted	146	134.1	280.1
Estimated gap between value of projects and all claims by 2024	34.2	20.6	54.8

4. Utilisation of allocations and de-commitment risk

The table above indicates that we can currently expect that *over £50m* 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 fall in the requirement for certain projects (e.g. employment related schemes) and the relative attractiveness of other sources of funds.

While this shrinkage represents an opportunity lost, it does have the benefit of making it less likely that Scotland will run out of our available EC allocation at the end of the programme.

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.

After de-commitments, the current EC allocations to the Scottish Programmes total £677.5m (ERDF £359.7m and ESF £317.8m) whereas we have legally committed £636.3m. In theory there is up to £41m of EC funding available to be used before September 2023 but in practice it has proved difficult to find partners or projects willing or able to use the funds.

5. 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. However 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. In particular we worked with 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.

6. 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 resulting from further EC de-commitments. Having sought to maximise use of the remaining allocations, given the financial risks around closing the programmes by the deadlines, the Managing Authority proposes to concentrate all its efforts on checking, paying out and claiming re-imbursements from the European Commission. Lines could 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 2024 (due to the extensive checks and regulations 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.

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