19 September 2017

Dear Joan

Ahead of meeting with the Committee to discuss European Structural Funds, I am pleased to share the following progress since I last wrote to the Committee in June.

ESF and ERDF Programmes 2014-2020

Programme Commitments and Spend

The total value of grant funding commitments approved by the Managing Authority has increased to £395 million. These are allocated across both the two funds and Scotland as shown in the table below. Since grant funding is allocated on the basis of being matched by the body seeking the grant, the actual investment in Scotland’s economy is far higher at around £800 million.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Committed (£)</th>
<th>Committed (%)</th>
<th>Programme Total (£)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>H&amp;I ERDF</td>
<td>54,031,391.24</td>
<td>51.34%</td>
<td>105,236,870.42</td>
</tr>
<tr>
<td>Rest of Scotland ERDF</td>
<td>152,420,602.50</td>
<td>45.29%</td>
<td>336,542,233.03</td>
</tr>
<tr>
<td>H&amp;I ESF</td>
<td>25,232,898.32</td>
<td>33.01%</td>
<td>76,449,735.00</td>
</tr>
<tr>
<td>Rest of Scotland ESF</td>
<td>99,753,809.25</td>
<td>37.23%</td>
<td>267,935,522.31</td>
</tr>
<tr>
<td>YEI ESF</td>
<td>59,125,634.29</td>
<td>69.20%</td>
<td>85,437,691.72</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>395,435,333.65</strong></td>
<td><strong>45.37%</strong></td>
<td><strong>871,602,052.49</strong></td>
</tr>
</tbody>
</table>

* based on August 2017 exchange rate of 1.11647

The combined value of the programmes in total is €944 million. The value of funding remaining to be committed is £477 million although I must stress that the sterling value varies according to the exchange rate with the Euro. The fall in the value of the pound means the total sterling value of the programmes at August 2017 is £872 million. Since the start of the programmes in 2014, their value has increased by over £120 million. However,
since funding is provided on the basis of being matched the pressure on available match funding may mean not all of this increase can be realised.

Programme Review

In my update to the Committee in June, I outlined that the early Review had confirmed the overall intervention logic of the programmes remained sound and that a number of technical changes were proposed to manage the programmes. The Joint Programme Monitoring Committee met in June and agreed that the following changes to the programmes should be pursued with the European Commission. These are designed to respond to the wider changes in the delivery context of structural funding and to ensure we optimise the impact of available funding.

- Change to the scope of the programme to allow for the support of innovation infrastructure, including actions identified as part of the Manufacturing Action Plan.
- Change to the scope of the programme to allow culture and heritage activities in the Highlands and Islands to focus on the culture and heritage element without the same emphasis on SME growth.
- Allocation of additional €2.1 million grant under the Highlands and Islands ERDF programme to culture and heritage activities. This figure is included in the €944m for the combined programmes.
- Allocation of additional €1.8 million grant under the Highlands and Islands ESF programme to the developing Scotland’s workforce activities. This figure is included in the €944m for the combined programmes.
- Increase in the co-financing rates for the programmes to enable grant to be awarded at higher intervention rates so reducing the contribution required from Scottish partners.

Negotiations with the EC have continued over the Summer and a formal submission was made to the Commission on 15 September to seek agreement to make this series of changes to the currently approved Operational Programmes. It is anticipated that a response will be received by the end of the year. Should all the changes be agreed, our firm intention is that the full value of the programme will be committed by March 2019.

ESF and ERDF programmes 2007-2013

Programme Closure

The Final Implementation Reports for the 2007-2013 were submitted to the EC by 31 March 2017. In line with my previous update, we anticipate final closure by March 2018. Invoices have been issued by the Managing Authority to beneficiaries from whom recoveries are required. The total value of these recovery invoices is £12.3 million and to date £4.4 million has been repaid. It will not be possible to confirm the final cost of closing the programmes until both the last feedback from the Commission is received and the end position regarding recoveries from beneficiaries is confirmed. At this time we estimate the cost will be £21.2 million, with Scotland having claimed a total of €740 million over the course of the programmes.

I hope this is helpful.

Keith Brown