ekos

Evaluation of the 2014-2020 European Structural Funds Programme in the Highlands & Islands

Report to The Scottish Government

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1   Introduction

This report presents the findings of an evaluation of the implementation of the European Structural and Investment Funds (ESIF) 2014-2020 programmes in the Highlands and Islands (H&I) region of Scotland. The research was commissioned by the Scottish Government (SG), as Managing Authority (MA) for the programmes, and was undertaken by EKOS between November 2021 and February 2022.

The research was overseen by a Steering Group, comprising representatives from the SG European Structural Funds and Subsidy Control Division and members of the Highlands and Islands Territorial Committee (HITC).

1.1 Background

For the 2014-20 ESIF programming period, Scotland was allocated total European Union (EU) funding of €941m, split across the European Regional Development Fund (ERDF) with €476m and European Social Fund (ESF) with €464m. In previous programming periods, Structural Funds in Scotland were allocated to two distinct programme areas covering the H&I and the Lowlands and Uplands (LUPS), each with separate Operational Programmes. In the 2014-2020 period, the programme structure was rationalised by reducing the programmes to two Scotland-wide programmes, one for ERDF and one for ESF. H&I region is incorporated within these Operational Programmes as a Transition Region[1].

The policy focus for the Operational Programmes was strongly led by the European Commission's (EC) EU2020 agenda, as well as SG economic strategy, including a greater emphasis on the low carbon economy, R&D and innovation, and inclusive growth through employability and social inclusion activities. The programmes were structured in Priority Axes, with initial EU financial allocations as shown in **Table 1.1.**

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[1] Scotland has two designated 'regions' within EU regulations. The Highlands and Islands is recognised as a Transition Region, and the rest of Scotland is classed as a More Developed region. Transition Regions have between 75% and 90% of the EU GPD per capita average. More Developed regions have >90% of the EU GPD per capita average.

Table 1.1: EU Allocations by Priority Axis and Region, Scotland 2014-2020 Programmes

Priority Axis	Transition Region (€)	More Developed Region (€)	Total EU Allocation (€)
1 Strengthening research, technological development and innovation	18,732,826	87,983,952	106,716,778
2 Enhancing access to, and use and quality of ICT	17,757,540		17,757,540
3 Enhancing the competitiveness of SMEs	29,045,763	118,973,986	148,019,749
4 Supporting a shift towards a low carbon economy in all sectors	25,236,403	94,356,289	119,592,692
5 Preserving and protecting the environment and promoting resource efficiency	11,560,528	39,651,322	51,211,850
Total ERDF	**102,333,060**	**340,965,549**	**443,298,609**
1 Supporting sustainable and quality employment and supporting labour market mobility	23,938,219	126,810,033	150,748,252
2 Promoting social inclusion, combating poverty and any discrimination	16,802,036	62,526,231	79,328,267
3 Investing in education, training and vocational training for skills and lifelong learning	33,926,671	96,951,236	130,877,907
4 Youth employment initiative		51,014,110	51,014,110
Total ESF	**74,666,926**	**337,301,610**	**411,968,536**

Source: ERDF and ESF Operational Programmes. Excludes Technical Assistance budgets.

Programme management and governance has also been streamlined in the 2014-2020 period. Programme delivery is undertaken by a small number of Lead Partner organisations operating Strategic Interventions (SIs) within the Priority Axes.

This is the second of two evaluation studies commissioned by the MA to examine the delivery mechanisms and effectiveness of the 2014-20 programmes. A summary of the findings of the first study, which focused on the partnership delivery model pan-Scotland, can be found in **Appendix 1**.

1.2 Study Objectives

This study focuses on the experience of the 2014-2020 programmes within the H&I, where economic and remote geographic conditions are considered unique, as recognised by its status as a Transition Region. The evaluation brief set out a range of questions to be addressed, covering aspects of the programme set up, delivery and legacy, with the aim to draw lessons for future replacement funding programmes.

Set Up and Decisions

- How was the initial model identified and consulted on? Were potential Lead Partners, Delivery Agents and wider stakeholders given sufficient input to influence the model and able/encouraged to bring forward views from the 'delivery-side'?
- Relevance/fit of targets and results – specific relevance of outputs and results for both the More Developed and Transition Regions of Scotland. Were target results matched to the needs and constraints of both areas?
- How were the differences in the regions of Scotland, and in particular the designated Transition Region, recognised? How did the programme work with these differences to tailor not only the model but the delivery mechanisms, structures, thresholds, criterion, specific targets/aims and the priorities and activities?
- How was the potential model assessed and how did it take account of the 'lessons learned' from the previous programmes?

During the Programme Delivery

- Has the current programme delivery model been successful in helping to deliver the goals and priorities of the 2014-2020 programme, specifically: economic, employment, innovation, education, poverty reduction and climate change/reduction in carbon emissions in both the More Developed and the Transition Regions?
- Has the programme delivery model been flexible in the specific mechanics and criterion within the Transition Region to reflect the specific issues and needs?
- How has the programme delivery model been adapted to meet the needs of the Transition Region?
- To what extent has the programme delivery model helped or hindered a consistent level of delivery across the More Developed and Transition Regions?
- Has the programme delivery model been flexible enough to allow adaptations and revisions? Identify the key examples?
- Would the programme have benefited from funding being delivered in stages rather than at the outset and if so to what extent?
- Is the programme delivery model sufficiently transparent to the beneficiaries of the funding?
- How have the programme governance arrangements worked?
- To what extent has the governance system allowed for input and recognition of stakeholder concerns, and how has it responded to significant issues.

- Has the governance system given adequate recognition to the Transition Region? In particular, how has it responded to the common and varying needs of the two programme areas and how has it ensured that each has been dealt with in accordance with specific needs?

Impact and Effectiveness

- What impact has funding had in the H&I region where economic and remote geographic conditions are unique, as recognised by its status as a Transition Region?
- Are there types of projects where funding is particularly effective in these types of regions?
- Conversely, are there types of projects where funding is notably less effective in these types of regions?

Legacy and Lessons

- What has worked and what has not in respect of:

  - Systems and administration of the programme
  - Governance arrangements
  - Identification and development of priorities and targets
  - Regional and local needs, rural and urban needs, etc.
  - Fit with wider policy and funding activities across Scotland
  - Compliance and scrutiny
  - Measures to ensure performance and delivery, especially following the coronavirus (COVID-19) pandemic
  - Response to and recovery from the pandemic.

- What lessons can be used to help develop future programmes?
- Looking forward, what factors make a successful partnership in the context of programme delivery, and can these factors be replicated and utilised for the replacement funding programmes in the future?

1.3 Study Method

A mixed-methods approach was undertaken, as outlined in **Table 1.2**.

Table 1.2: Study Method

Stage	Deliverables
Scoping meeting	• Inception note and project plan.
Desk Review	• Review and synthesis of a range of documentation, including: ESIF governance documentation, Operational Programme documentation, Annual Implementation Reports (AIR), Programme Monitoring Committee (PMC) and HITC minutes, and Ex-Ante Evaluation of ERDF and ESF 2014-2020 Scottish Operational Programmes.
Stakeholder Engagement	• H&I consultations: Argyll and Bute Council, Comhairle nan Eilean Siar, Highland and Islands European Partnership (HIEP), Highland Council, Highlands and Islands Enterprise (HIE), Moray Council, New Start Highland, North Ayrshire Council, Orkney Islands Council, Shetland Islands Council, University of the Highlands and Islands (UHI) • National Lead Partners: NatureScot, SG Energy and Climate Change, SG Digital Directorate, SG Housing and Social Justice, Skills Development Scotland (SDS), Scottish Funding Council (SFC), Transport Scotland, Zero Waste Scotland • MA: Portfolio and Compliance Managers, Steering Group team • Audit Authority (AA) • Wider stakeholder consultations: Scottish Council for Voluntary Organisations (SCVO), European Policies Research Centre (EPRC) at University of Strathclyde • Study progress meetings with the Steering Group on 17 January, 7 February and 24 February 2022 • A presentation of emerging study findings and discussion at a remote HITC meeting hosted by the MA on 15 February 2022.
Reporting	• Draft and final reporting.

1.4 Report Structure

The remainder of the report is structured as follows:

Chapter 2 discusses the set up and design of the programmes.

Chapter 3 explores the delivery and governance arrangements.

Chapter 4 discusses programme impacts and effectiveness in the H&I Region.

Chapter 5 draws together the findings on the legacy of the programmes and lessons for future funding.

Appendix 1 provides some contextual evidence and findings from the parallel EKOS study conducted for SG, which examined the partnership delivery model in Scotland in this programming period.

Appendix 2 provides a list of organisations consulted.

2 Programme Set Up

2.1 Introduction

This Chapter examines the key elements of the programmes' design and development phase. It draws together the desk-based review of programme documentation, minutes and data, provided by the MA, and primary research with stakeholders. Questions in italics were set out in the study brief.

2.2 Design and Development

2.2.1 Transition Area Model

How was the model tailored to the specific circumstances in the Transition Region, with respect to: Delivery mechanisms; Eligible activities; Eligibility criteria; Award thresholds; and Targets?

2.2.1.1 Delivery Mechanisms

Driven partly by the declining financial and political importance of ESIF, SG had already in the 2007-2013 period begun the transition towards a more streamlined, pan-Scotland approach to programme management. The Intermediate Delivery mechanisms in the Transition Region broadly followed the same model as the rest of Scotland, with a combination of Local Authorities, enterprise and skills agencies, SG departments and non-departmental government bodies taking responsibility for SIs.

Integrated Territorial Investment

At the programme design stage, HIEP investigated the possibility of establishing an Integrated Territorial Investment (ITI) in the H&I. An ITI[2] was a new delivery mechanism in the 2014-2020 programming period that enabled the implementation of a territorial strategy in an integrated manner while drawing funds from the relevant Priority Axes in the same or different programmes. It has been widely used across the EU, including in the UK (e.g. Cornwall[3]).

Stakeholders suggested that an ITI model could have benefited the Transition Region, for example, by supporting and facilitating a more integrated regional approach. However, there would still have been restrictions on eligible projects, and the same audit regime as existed in the rest of Scotland.

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[2] European Commission (2014) Guidance Fiche: Integrated Territorial Investment
[3] Integrated-Territorial-Investment-ITI-Strategy.pdf (cornwallislesofscillygrowthprogramme.org.uk)

Consequently, the model was not adopted by the MA and there was felt to have been a reluctance to establish a separate delivery mechanism.

Instead, the HITC was established as a mechanism to consider H&I issues and to offer recommendations to the PMC. This was reported to be an attempt to fill the gap left by the closure of the Highlands and Islands Partnership Programme (HIPP Ltd), and without the H&I specific PMC or H&I wide Advisory Groups that had previously been in place with separate Operational Programmes.

Among regional stakeholders, the consensus was that the previous model for the 2007-2013 programmes worked much better than the more centralised approach for 2014-2020. Previously, H&I stakeholders had been involved in the entire programme cycle as part of an inclusive partnership approach to programme design. This partnership approach was lost for the 2014-20 programme.

Regional versus National Strategic Interventions

There have been three main delivery mechanisms for implementation of the programmes in the Transition Region: H&I SIs delivered by H&I based organisations; H&I SIs delivered by national organisations; and national SIs delivered by national organisations, with ringfenced funding allocations for H&I.

H&I SIs delivered by H&I-based Lead Partners: A significant element of both ERDF and ESF delivery has been led by regional H&I based partners. Local Authorities were expected to take the lead in three main Priority Axes[4]:

- Additional activities to support Business Competitiveness within the existing Business Gateway model (ERDF Priority Axis 3);
- Additional activities building on existing Employability Pipelines (ESF Priority Axis 1); and
- Activities to address poverty and social inclusion objectives (ESF Priority Axis 3).

Using a formula approved by COSLA, all 32 Local Authorities were provided with indicative financial allocations for the three Priority Axes. However, due to concerns primarily around match funding and internal capacity to deliver, not all Local Authorities took up their allocations, meaning that distribution became uneven across the country. For the H&I, the most affected was Argyll and Bute Council, which lost out on its Employability and Poverty and Social Inclusion allocations.

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[4] Local Authorities in the Transition Region were not eligible for the Youth Employment Initiative (ESF P4), which was designed to tackle youth unemployment in urban areas.

HIE, sometimes working alongside SE covering the More Developed Region, has also been leading on SIs in the Innovation and Business Competitiveness Priority Axes.

H&I SIs delivered by national organisations: two SIs were specific to H&I and delivered by national organisations: The SG 4G Infill Programme, and NatureScot's Natural and Cultural Heritage Fund. In the former, this enabled specialist inputs to SI development and integration within national ICT policymaking; in the latter, it enhanced NatureScot's reach across the H&I Region, and achievement of tourism strategic objectives for the organisation.

National SIs delivered by national Lead Partners: national SIs included the Low Carbon Travel and Transport SI managed by Transport Scotland and ESF SIs managed by SFC, SDS, BIG Lottery and SG Housing and Social Justice team. Some Lead Partners have adjusted their SIs to work better in the Transition Region by changing eligibility criteria or arranging additional promotional measures (e.g., roadshows). Where Lead Partners have delivered across both the LUPS and the H&I areas, it has been possible for national organisations delivering activities to deliver the same basic service whilst also allowing Delivery Organisations to taper specific activities so that they are relevant to the location of delivery. The model allowed staff costs to be 'shared' between Transition and More Developed Regions.

Greater Integration

In 2017[5], HIEP made a request to the MA that a working group (either H&I specific or Scotland-wide) be established with the aim of increasing synergies, taking a more collaborative approach to solving problems faced in specific areas/communities, sectors or thematic projects/clusters. It argued for a combined revenue and capital multi-SI approach. This level of integration was not taken forward and no significant changes were made to the structure of the programmes. However, Working Groups were established later in the programming period to address common issues, like the backlog of claims.

Eligible Activities

The Operational Programme makes clear that the emphasis in the 2014-2020 programme is on building a cohesive Scotland-wide approach that addresses challenges faced across the country, while delivering locally relevant operations within strategic objectives, particularly in the H&I.

The main exception to this at the ERDF programme design stage was the creation of a specific Transition-only Priority Axis for 'Enhancing access to, and use and quality of ICT' (the Digital Infrastructure SI led by SG) to address market difficulties in remote rural regions. Subsequently, an

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[5] HITC HIEP Paper 02112017

additional SI for the Transition Region was added in Priority Axis 5 to enable support for natural and cultural heritage projects.

In addition, within some other Priority Axes and SIs, provision is made for a sub-set of activities designed into the programme to address the specific conditions in the H&I:

- In Priority Axis 1: Additional activities for innovation capacity building in key smart specialisation areas such as life sciences, marine energy and medical diagnostics, to support strengthening of knowledge institutions to engage with businesses in these sectors. This included: a) support for PhD and post-doctoral places, particularly those working with local SMEs; and b) the provision of highly specialise equipment (e.g., medical diagnostics machinery or underwater acoustic profilers) to assist academic to business collaboration; and
- Under Priority Axis 3, enabling infrastructure and supporting businesses of scale specifically for H&I was incorporated (an additional eight eligible activity areas specifically designed with and for regional stakeholders).

For ESF, the Operational Programme recognised particular territorial needs in the Transition Region around:

- Fragile rural areas and communities, which can be subject to permanent geographical handicaps, fuel poverty, distance from services and demographic decline; and
- Access to education and training where more work is needed to expand opportunities at all education levels and by increasing online and blended learning options.

It states "*Significant work has been undertaken…. To identify how best to tailor and deliver national interventions in an area with dispersed locations, low population density and high distance to services, lower and sometimes seasonally dependent wages, sparse population concentrations and very particular sectoral and skills strengths around low carbon and tourism. This has determined how the Transition regional allocation has been split across the thematic objectives, with a different profile than in more developed regions; as well as allowing for different remote delivery options e.g. around skills, and additional eligible activity e.g. around highly specialised business or innovation infrastructure.*"

In terms of financial allocations, it should be noted that the EC ringfenced financial allocations by theme under the regulations. Putting aside the Youth Employment Initiative, which was only available in the More Developed Region, the share of ERDF: ESF financial allocations is roughly the same (c. 40%) across the two areas.

One consultee noted that the ERDF share of the Transition Region allocation was raised in response to stakeholder feedback during programme design. A larger share of ERDF has been allocated to ICT and Business Competitiveness in the Transition Region, whereas the Employment Priority Axis is

more weighted in the ESF programme. The split of financial allocations by Priority Axis and Transition/More Developed Regions is shown in **Figure 2.1.**

Figure 2.1: Proportion of Allocated Expenditure by Priority Axis and Area
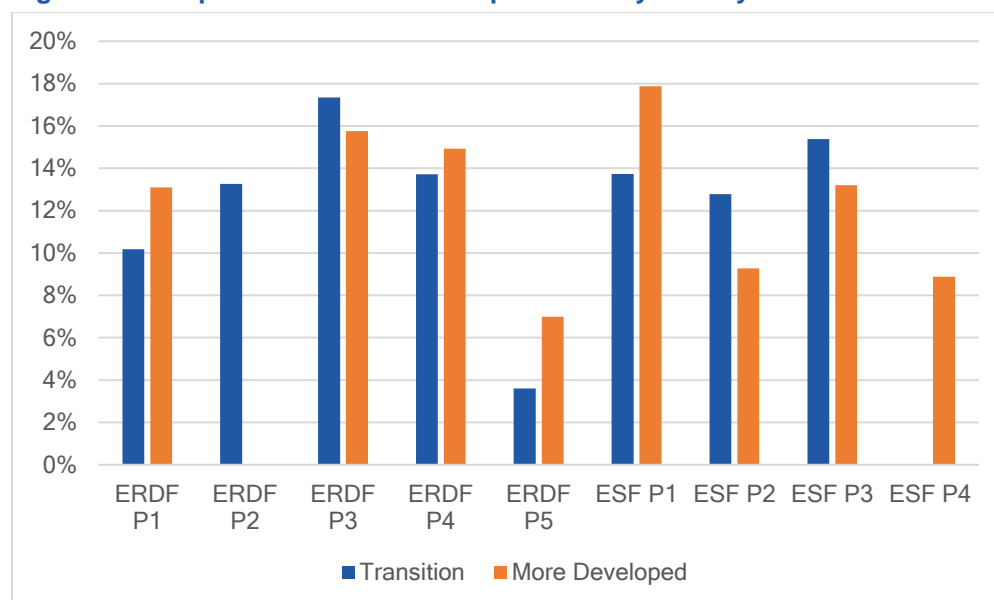
The actual expenditure is discussed later, in **Section 3.3**.

Eligibility Criteria

Eligibility criteria for SME infrastructure support were set with employment creation as a priority, focusing on projects supporting specific Smart Specialisation sectors in the Transition Region and regionally significant culture and tourism projects. General and speculative infrastructure was not eligible.

It was further specified that the investment must have the potential to create a minimum of 10 jobs in the most sparsely populated regions (20 jobs elsewhere).

Award Thresholds

EC regulations set the co-financing rate and maximum amount of support from the funds for each Priority Axis, at 60% for Transition Regions and 50% for More Developed Regions[6].

At the outset of the ERDF Operational Programme, it was decided to set the award maximum below the permitted threshold, at 60% for SIs in Priority Axes 1, 3, 4 and 5 and 55% in P2 (ICT) in the Transition Region and 45% for the More Developed Region.

Following the Programme Review in 2017, the award thresholds were raised, as discussed later.

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[6] Common Provisions Regulation (Regulation EU No 1303/2013)

Targets

The Commission requires each Priority Axis to include common indicators as laid down by Fund-specific rules as well as indicators *"to assess the progress of performance implementation towards achievement of objectives as the basis for monitoring, evaluation and review of performance"*.

Programme targets were set during the programme design stage through consultation and evidence gathering involving the MA and Lead Partners and were also partly based on previous programming experience.

It was noted that in certain cases, the original targets had to be amended once the full landscape of programme parameters, including the types of eligible beneficiaries, were fully scoped out.

2.2.2 Lessons Learned from Previous Programmes

How did the model take account of the 'lessons learned' from the previous programmes?

The Operational Programme noted that a key lesson from the 2007-2013 programming period was the need to simplify and improve the management of the funds in Scotland, due to several audit and compliance issues that had been experienced (including the suspension in 2015 of the ESF programme by the EC)[7].

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[7] Scotland ERDF Operational Programme 2014-2020, p192

The reduction of the administrative burden was intended to be achieved through several measures:

- Use of Lead Partners: larger organisations charged with overseeing SIs and providing stability to Delivery Agents, potentially centralising match funding so that smaller organisations could apply to one source of funding rather than to EU and domestic funds;
- Increased use of procurement, intended to clarify project parameters and simplify audit trails;
- Increased use of simplified and unit costs, especially for training and revenue projects, enabling a focus on delivery of outcomes;
- Improved IT systems, i.e., EUMIS which was hoped would be far more agile to effectively monitor programme implementation;
- Improved guidance and support, available by the end of 2014, and online, with a mailbox for enquiries and helpdesk from the MA; and
- risk based checking and coordination between the MA and AA, addressing the common complaint from beneficiaries over the level and numbers of checks and audits that a single project may need to go through. Scrutiny and Risk Panels, and risk management plans, were intended to ensure that compliance checks would be more proportionate and focussed and reduce unnecessary checking.

Prior to the 2014-2020 programmes, Working Groups were established to reflect on the experiences of the 2007-2013 programming period and to produce a series of 'Lessons Learned' reports to inform programme management going forward.

The PMC review[8] focused on the impact of the lack of clear roles and management information to ensure that the forum maintained a strategic oversight of the programmes. It made recommendations to ensure clear remits, representation, a focus on what projects are delivering backed up by good information, and requiring proper resourcing. In terms of the performance framework, weaknesses in setting of targets at a programme level and how the framework aids the programme delivery needed to be addressed.

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[8] 2007-13 European Structural Funds Programme Lessons Learned - Programme Monitoring Committee Review

A National Rules Working Group[9] recommended wider stakeholder (i.e., operational level, not just programme management) engagement in preparation of the Rules; improved navigation, clarity, management and control processes and dissemination; and training for MA, AA and compliance officers on how Rules should be applied.

Recommendations to inform the design of compliance/verification processes[10] included: early consideration of State Aid and procurement compliance and more comprehensive overall checks at Stage 1; movement to simplified costs/procurement to reduce the administrative burden; a realistic audit regime with clear separation between MA and AA checks to avoid duplication; clearer National Rules and guidance on horizontal themes and ESF participant reporting; better systems for monitoring the compliance performance and sharing issues between MA and AA; regular meetings between MA and AA at senior and operational levels and closer cooperation on Article 60b (MA compliance checks) and Article 62 (AA).

However, the consultations revealed a broad consensus that, despite this quite in-depth consideration and reflection on the part of the MA and wider stakeholders on the lessons from the 2007-2013 programming period, much of the aspiration has not been realised during the current programming period. The various elements of this consensus are outlined in more detail below.

2.2.3 Fit with Wider Policy and Programmes

How well has the Transition Region priorities and funding allocations fitted with wider policy and funding programmes available. How has it added value?

The ex-ante evaluation considered that there were '*good and explicit links'* between the programme priorities and established priorities at SG level, as well as strong alignment with the strategic aims of most partners. In addition, the integration with other European funding programmes was built into the programme framework; rural development, including LEADER (European Agricultural Fund for Rural Development - EAFRD) and fisheries (European Maritime and Fisheries Funds - EMFF).

ESF has been used since the 2007-13 programmes to develop a more strategic approach to employability at the Local Authority level. In the 2014-2020 programming period, the Employability Priority Axis has been used to further develop the Employability Pipelines in most H&I Local Authorities (with exception of Argyll and Bute).

Within the Priority Axis for Employment, SFC leads the Development of Scotland's Workforce SI. Its agreement with UHI enables the delivery of additional funded places at SCQF Level 5 and above.

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[9] Future Funds 2014-2020 National Rules Working Group, Lessons Learned Report
[10] Future Funds 2014-2020 Article 60b Expenditure verifications & On-the-Spot Compliance Checks Lessons Learned Report

Specifically for the Transition Region, this SI also supports sector engagement activity to inform curriculum development.

The largest ERDF Priority Axis has been Business Competitiveness, which has mainly been used by Local Authorities to boost Business Gateway services but has also, uniquely to the Transition Region, been used by HIE for SME infrastructure projects.

The Innovation Priority Axis has also been largely used by SG and the enterprise agencies on capital and revenue projects in line with SG innovation policy, e.g., new research infrastructure for SMEs and Life Sciences.

ERDF has also been integrated into the Inverness and Highland City Region Deal, with projects at Inverness Castle (through the Smart Cities and Natural and Cultural Heritage SIs), and the Northern Innovation Hub (HIE Innovation SI).

Other SIs in the Low Carbon/Resource Efficiency Priority Axes are national programmes run by national bodies, with discrete funding allocations for the Transition Region. They form part of a wider suite of SG actions to support Scotland's transition to a low carbon economy and to reach climate change targets, led by agencies such as HIE, Zero Waste Scotland and Energy Savings Trust.

Similarly, the Digital Infrastructure SI sits alongside other SG work to improve and extend Scotland's broadband and mobile network (e.g. R100).

Overall, therefore, it can be assessed that the ESIF have been well integrated into the wider economic development landscape in Scotland.

3 Programme Delivery and Governance

3.1 Introduction

This Chapter explores the programme delivery and governance arrangements, based on the desk review of minutes, papers and data, and on stakeholder consultations.

3.2 Governance Arrangements

How have the programme governance arrangements worked?

- To what extent has the governance system allowed for input and recognition of stakeholder concerns?
- How has the governance system responded to significant issues?
- Has the governance system given adequate recognition to the Transition Region? In particular, how has it responded to the common and varying needs of the two programme areas and how has it ensured that each has been dealt with in accordance with specific needs?

As the MA in Scotland, the SG has responsibility for ensuring that the funds are governed in line with EU regulations[11] and distributed in accordance with EU law.

Programme Monitoring Committee (PMC)

The role of the PMC is to monitor the performance of the programmes against milestones and targets, and to assess the funds' contribution to the Europe 2020 objectives.

Initially, Scotland established a Joint Programme Monitoring Committee (JPMC) to ensure strategic governance of all the ESIF, replacing past separate monitoring committees. However, due to attendance issues and to improve oversight of the funds, the structure was changed in 2019 to focus governance of the ERDF and ESF programmes.

The PMC meets twice a year and is chaired by the MA.

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[11] European Commission (EC) Regulations 1303/2013

Stakeholders noted that the relevance of meetings improved following the focus of business on ERDF and ESF matters, as prior to this, much discussion had not been relevant to individuals round the table. It was noted that later in the programme, operational/working groups had helped to improve insights and gain from the experience and expertise available. It was suggested that it might have been useful to have made greater use of thematic groups from the outset to gain insights on particular areas.

It was widely reported that the PMC had insufficient data to monitor the 2014-2020 programmes effectively, including a lack of disaggregated data for the Transition and More Developed Regions. The level of oversight that happened in previous programming periods was felt not to have been there, and it was reported that the PMC had a reduced influence on the delivery of the Programmes. According to one stakeholder:

> *"The PMC is a formal statutory body so should be sighted on all data relating to progress, administration, delivery and payments including audit reports. Without this they cannot make informed decisions. There are also limitations as to what could be achieved by firstly the JPMC covering all four ESIF funds and subsequently the PMC covering the ESF and the ERDF funds when it only meets twice a year".*

Other stakeholders commented on a perceived lack of discussion at the PMC regarding horizontal themes during programme implementation. These themes were factored into the SI applications and have been monitored by Lead Partners Therefore, there is scope to consider progress against these objectives before the end of the programme.

Highlands and Islands Territorial Committee (HITC)

Sitting under the PMC, the HITC was established with the main purpose to consider H&I issues and offer recommendations to the PMC from a H&I perspective, first meeting as a shadow committee in November 2014.

According to the Management and Control System[12], the roles of the HITC are to:

- Monitor and report to the PMC on performance and spend in relation to Structural Funds in the Transition Region, particularly the achievements of the targets, financial management, absorption rates, and targeting of funds;

- Periodically review and report on progress made in other ESIF Operational Programmes including LEADER and Axis 4 (EMFF) and Community Initiatives and advise the MA and

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[12] Scottish Government Management and Control System 2014-2020 European Structural and Investment Fund Programmes

- Operational Committees on possible improvements to achieve better impacts in the Transition Region;
- Review the scope of and financial balance between SIs and suggest recommendations for any amendments in agreement with Lead Partners as appropriate, and particularly for the mid-programme review, to ensure performance and suitability of activity for the Transition Region;
- Promote coordination between SIs and Lead Partners within the Transition Region;
- Recommend to PMC any evaluations specific to outcomes in the Transition Region where these are different from or in addition to national evaluations; and
- Make recommendations to the PMC, as appropriate, on any amendments which could be implemented to improve the effectiveness of the delivery of the funds including its financial management.

Chaired by the SG as MA, the HITC's membership officially comprised all seven Local Authorities in the region, represented by Conveners with officials as alternates, and two additional members on an individual basis to represent the third sector and civil society. In addition, members from other organisations were to be invited on an ad-hoc basis for their expert inputs.

In practice, more organisations have become regular attendees, including regional institutions, the UHI, HIE and HIEP, as well as organisations with SIs and activities operating in the region, such as BIG Lottery, SFC and SDS. The EC (DG Regio and DG Emploi) have also attended on occasions.

A key task for the HITC was to review SIs applications and provide feedback to the Scrutiny and Risk Panels.

A review of the HITC minutes and papers reveals some tensions arising in the early stages of the implementation period. Several steps were planned to improve the situation in 2015, including more timely notice of meetings and provision of papers, ability to influence national SIs, and ability for members to influence the agenda.

However, in 2017 a paper prepared for the PMC to highlight HIEP members' ongoing concerns around programme implementation was not tabled; the MA instead provided written answers. The issues included requests to improve EUMIS functionality, inconsistent interpretation of rules and guidance and a request for a single unified document, the impact of retrospective application of rules, a request to re-evaluate Lead Partner and Delivery Agent risks, and poor SI integration.

Later minutes of HITC show an improvement in relations. However, in 2021, there are still concerns that management information was not sufficiently disaggregated by region to enable an assessment of progress.

Stakeholders observed that HITC meetings were generally well attended and there was a desire to make the best use of the Transition Region allocation, and to work collectively with others to identify

solutions to any issues encountered. Members willingly put in time and effort to attend and to prepare papers addressing issues arising.

While it was mentioned that the establishment of the HITC was initially viewed by some as a "tick box exercise", dialogue has since improved between members and the MA, and HITC members have been involved in setting/driving the agenda. It has improved as a partnership and has also achieved more influence over time.

It was also reported that HITC updates go to PMC and a HITC member sits on PMC to ensure appropriate links and connections between the different structures.

Some national Lead Partners reported that relationships have been challenging at times, with HITC perceived to be questioning the MA's approach to delivery in the H&I.

As with the PMC, it was noted that the HITC, particularly in the early years of the programme had insufficient accurate and reliable data to allow it to make suggestions on expenditure which may have prevented some of the decommitment and loss of EC grant funding. Without management data for the H&I, it was noted that the HITC was not able to make informed decisions on potential changes to the Transition Region funds. In part, this was considered a result of delays in the EUMIS system becoming operational, claims issues and a lack of reporting functionality in the system.

It was suggested that an annual review process could have enabled changes to have been made to improve delivery, performance and impact as a matter of course.

Managing Authority

In terms of recognising and responding to the particular needs of the H&I, common feedback was that the previous Intermediate Administrative Body in the H&I, HIPP Ltd, had various strengths, namely:

- Staff on the ground had a strong level and depth of knowledge and understanding of the issues and challenges faced by rural, remote and island geographies;
- Less fragmentation in delivery; and
- Partners worked collaboratively to resolve any issues that were encountered and to find workable solutions.

In past programming periods, there was a H&I advisory group that involved all the local partners and, among other things, assessed applications. This advisory group was said to have built up good knowledge about what was going on in the region, including what was working well and less well. It was felt that this knowledge had also been lost in the current programming period.

One partly mitigating factor was the retention of SG offices in Stornoway and Inverness with experienced staff who had previously been employed by HIPP Ltd transferred under TUPE to MA roles.

In common with the rest of Scotland, partners in the H&I are working with the MA to resolve ongoing issues with claims, verification, audit and compliance, and resolving the programme suspension issues.

3.3 Delivery Model

Has the current delivery model been successful in helping to deliver the goals and priorities of the 2014-2020 programme, specifically: economic, employment, innovation, education; poverty reduction and climate change/reduction in carbon emissions in both the More Developed and the Transition Regions?

Due to the aforementioned difficulties with delayed claims, it is more difficult than might be expected at this stage in the programme to make an assessment of the progress in the H&I Transition Region, based on programme performance data.

Financial data provided by the MA shows that the Transition Region has some distance to travel to reach targeted financial expenditure, **Tables 3.1 (ERDF) and 3.2 (ESF)**.

Table 3.1: ERDF Financial Performance in Transition Area, 10 November 2021

Priority Axis	Programme Value (€)	% of Programme Committed	% of Programme Paid
1 Innovation	29,401,648	59%	13%
2 ICT	13,039,352	100%	38%
3 Business Competitiveness	24,448,434	100%	32%
4 Low Carbon	16,932,584	73%	10%
5 Resource Efficiency/ Environment	17,343,515	103%	10%
Technical Assistance	4,215,231	55%	31%
Total	**105,380,764**	**83%**	**20%**

Source: Scottish Government

Although a reasonable level of ERDF commitments were made, amounting to 83% of the available budget in the Transition Region, there are two areas where H&I has not attracted the level of activity anticipated at the outset: Innovation (59% of available funds committed) and Low Carbon (73%). In November 2021, only 20% of funds had been claimed and paid, with the lowest level of pay-out in the Innovation Priority Axis (13%).

These figures compare with a more advanced situation in the More Developed Region, which has committed 89% and paid out 30% of available ERDF.

Table 3.2: ESF Financial Performance in Transition Area, 10 November 2021

Priority Axis	Programme Value (€)	% of Programme Committed	% of Programme Paid
1 Employability	20,139,441	94%	16%
2 Poverty/Social Inclusion	12,356,726	82%	9%
3 Education	29,663,450	100%	11%
Technical Assistance	2,589,984	82%	46%
Total	**64,749,601**	**94%**	**13%**

Source: Scottish Government

Similarly, on the ESF side, 94% of the financial allocation has been committed, but only 13% has been paid out by November 2021. The main area of under-commitment and claims is in the Poverty and Social Inclusion Priority Axis, at 82% committed and only 9% paid out.

Overall progress in the Transition Region compares less favourably than the More Developed Region, which at the same date had reached 103% of funds committed and 27% paid out.

Correspondingly, the reporting of outputs and results is some way behind what might be expected at this stage.

Given that many claims have been submitted and are in the process of verification or have (as yet) unresolved issues, and that a further tranche of expenditure is waiting to be claimed by Lead Partners, there is some certainty that the available data does not reflect the reality of activity, outputs, results and impact on the ground.

Stakeholders discussed the loss of funding through de-commitments, declined allocations and slow uptake of funds. The main feedback was that the financial disbursement of funds may have been more effective if there had been:

- Quicker timescales for the approval of applications in the early years of the programme;
- Greater flexibility within the SIs;
- A genuine partnership and collaborative approach from the outset and throughout the programming period; and
- Greater recognition that some methods of delivery and rules which might work in urban densely populated areas do not work in remote and rural areas.

The delivery model was not said to have been significantly different in the H&I Region and the rest of Scotland. The main difference was that there were two discrete pots of funding for the Transition and More Developed Regions. It should be noted that in response to stakeholder consultations, at the programme design stage, the MA allocated a larger balance of the Transition Region allocation to the ERDF Programme, and consequently the More Developed Region received higher ESF, within the overall Scotland allocation.

The Transition and More Developed Regions funds had to be managed and reported separately; this provided those Lead Partners delivering nationally with the opportunity to adapt projects to reflect the particular remote and rural circumstances of the Transition Region. Further, in the Transition Region, it was possible to concentrate on funding projects which were considered to be of strategic importance, and which may not have been given the same strategic investment weighting status in an urban setting. Here, it was mentioned that there was a requirement to ensure that the programme was delivered in a manner which incorporated specific additional transitional needs.

For example, UHI operated as a Delivery Agent under national Lead Partner organisations, principally the SFC, whereas in the past it would have designed and led its own projects. However, UHI was satisfied that the model had worked well, having been able to tailor the activities to meet UHI's strategic objectives, and benefiting from the constructive working relationship it enjoyed with the SFC. The SFC also organised regular workshops with college European funding staff across Scotland for exchange of experience which had been helpful.

Highland Council, as the only Transition Region partner in the Scotland's 8th City – The Smart City SI, managed its own tranche of funding separately from the main Lead Partner, Glasgow City Council. This was observed to have been a good arrangement which gave the Highland Council some autonomy, as well as the higher intervention rate of 70%, while being part of a good quality, national innovation project using technology and data to address urban challenges.

A fair assessment is that some, but not all national Lead Partners have had staff and established networks in the Transition Region. Where this is the case, national bodies have worked closely with others to capture intelligence and ideas to ensure that the offer was adapted to what was needed and embed delivery in the H&I Region. Further steps have been taken to increase uptake, including organising roadshows to promote the funding opportunities (e.g., Low Carbon Infrastructure Transition Programme, NatureScot's Natural and Cultural Heritage Fund), and to organise H&I specific funding rounds (e.g., SG's Aspiring Communities Fund).

It was believed that more use could have been made of integration between SIs, but that was not felt to have materialised in any significant way.

The drive to categorise ESIF funds as "strategic" occasionally appeared to have led to a misrepresentation of the meaning of the term strategic. For example, some stakeholders commented that this was at times misinterpreted to mean "national". The counter point made by H&I stakeholders (successfully on some occasions) was that it is also possible for strategic to be relevant and applicable within regional or local economy context.

3.3.1 Flexibility

Has the programme delivery model been flexible in the specific mechanics and criterion within the Transition Region to reflect the specific issues and needs?

At HITC meetings, concerns were raised with some of the SIs developed by national organisations that the design had failed to take full account of the particular needs of the Transition Region.

Stakeholders cited a range of issues that deterred applicants or had required lengthy negotiation for flexibility to widen the criteria to meet the different circumstances in the H&I.

In several cases, the criteria have led to absence of activity, for example:

- Argyll and Bute Council was unable to take up its ESF allocations for Employability and Poverty & Social Inclusion due to the higher costs of serving the eligible beneficiaries in a dispersed population; and
- A lack of applicants to the Green Infrastructure Fund due to population thresholds which excluded most areas of the H&I except for Inverness.

Other barriers to applicants included:

- Setting minimum project costs at a high level (e.g., LCTT Challenge Fund set the minimum project costs in H&I at £0.5m);
- The range of eligible activities were more constrained and prescriptive than previous programming periods (e.g., around capital investment), as required by the EC regulations;
- A small/limited local third sector in the region resulted in fewer applications/bids for challenge funds and/or made it difficult to get specific programmes off the ground altogether;
- There were constraints around capacity to deliver (i.e., varying levels of resource and capacity within Lead Partners, Delivery Agents, third sector, smaller organisations, etc); and
- There was less scope and flexibility at a local level to react to changes in the external environment, to tailor projects to the situation on the ground, and for innovation.

In some cases, adjustments to criteria were made that were sufficient to enable projects to go ahead, for example:

- Recognising that there is not a one-size-fits-all definition of a high-quality job, and that any job creation in rural areas can have a higher relative impact than in urban areas;
- The maximum intervention rate was increased to 70% following the Mid Term Review which helped organisations that were struggling to meet match funding requirements; and
- The removal of the 100% staff cost rule for the whole of Scotland. The 100% staff cost rule often excluded the possibility of drawing on the existing expertise and knowledge of staff in small organisations, and this change potentially had greater effect in the H&I Region.

Overall, therefore, while in some cases adjustments have been made that have improved the suitability of the programme, the evidence from take-up of available funds suggests that the parameters were not sufficiently adapted to meet the needs of the H&I Region.

3.3.2 Adaptations

Has the programme delivery model been flexible enough to allow adaptations and revisions? Are there examples of where the programme has been flexible? Identify the key examples.

There have been instances where the PMC has approved amendments and revisions to the programmes in light of operational experience[13]. The early Programme Review in 2017 triggered by the Brexit vote resulted in several changes, namely:

- The addition of a new SI for research infrastructure in both the More Developed and Transition Regions, dovetailing with the City/ Region Deals and Manufacturing Action Plan; £5m was allocated to the Transition Region having identified a need for innovation infrastructure particularly in Smart Specialisation sectors such as health sciences;
- Reallocation of £2.5m from the ERDF Business Competitiveness priority, where uptake in the Transition Region had been low due to eligibility restrictions (SME focus), transferring the funds instead to the Environment Protection priority to fund the new SI operated by NatureScot for Natural and Cultural Heritage;
- Allocation of an additional £1.54m to the ESF Workforce Development priority which was experiencing good levels of demand in the Transition Region; and
- A decision to increase the maximum intervention rate from 55% to 70% in the Transition Region for all ERDF and ESF Priorities to overcome low absorption and match funding issues. It was noted, for example, in November 2017[14] that the sustainable priorities were under-committed in the Transition Region with Lead Partners struggling to identify match funding for operations; however, the higher intervention rate in Stage 2 would help.

A further key catalyst for adaptations to the programme was the COVID-19 pandemic. In spring 2020, Member States were given the possibility to re-allocate unspent cohesion policy funds under the Coronavirus Response Investment Initiative package (CRII and CRII+); £2.34m was allocated to H&I. In addition, eligibility of SMEs was widened in Priority Axis 3.

Through the consultations some examples were provided of how delivery models were tailored to the specific circumstances in the H&I Region.

It was reported that H&I third sector organisations were able to benefit from the National Third Sector Fund (NTSF) after some adaptations. The Fund was developed to enable larger third sector organisations to provide services across Local Authority boundaries.

Organisations in the More Developed Region must cover a minimum number of eight Local Authority areas to be eligible to apply to NTSF. Initially, the Fund required applicants in the H&I to deliver in three Local Authority areas, however, due to a lack of demand the requirement was subsequently changed to one area.

The changes to criteria recognised both the different scale of provision and that delivery in remote areas of the H&I can be so specific to that community that it results in such low financial returns that

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[13] JPMC 09-06: European Structural Funds Review Recommendations, June 2017
[14] HITC Minutes November 2017

larger organisations will not bid to deliver the service. Often only smaller, third sector organisations local to the area are prepared to operate in regions outwith the immediate Inverness area. SDS avoided conflict with existing Local Authority delivery by ensuring applicants had agreement from the Local Authority before approval. Although funding has not been exhausted, the adaptations have improved the suitability and take-up of the funding in the Transition Region.

SFC as Lead Partner for the Education theme worked closely with the UHI at the application stage given differences regarding remoteness/rurality, student numbers, and skills needs in the Transition Region compared to LUPs. The approach in LUPs was considered more straightforward and built on what was delivered in the 2007-2013 programme. In the H&I more time was taken to engage employers/sectors to see what they needed, then to develop curricular activities in response to help develop the pipeline into sustainable employment. UHI report that there have been several sustainable outcomes from this period, including positive relationships with a range of employers and sectors; a suite of microcredit courses which are increasingly popular workforce development tools; staff with curriculum development skills; and a larger student capacity, particularly in postgraduate research and teaching areas.

3.3.3 Consistency of Delivery

To what extent has the programme delivery model helped or hindered a consistent level of delivery across the More Developed and Transition Regions?

All 32 Local Authorities were invited to take Lead Partner responsibilities for operations in three main areas: ERDF SME Competitiveness (Priority Axis 3); ESF Employability (Priority Axis 1); and ESF Social Inclusion and Poverty Reduction (Priority Axis 3). However, some Local Authorities in both the More Developed and Transition Regions have decided not to participate in ESF, or have withdrawn during the programming period, therefore coverage is not uniform across Scotland.

Local Authorities in the Transition Region reported that they had a limited role in the other SIs for the 2014-2020 programmes, and in some cases lacked visibility of operational activity. It was noted that this limited both the relevance and impact of some SIs in the H&I Region. It was felt that the streamlined structure as well as reduced emphasis on infrastructure improvements had contributed to a reduced impact for the H&I, in comparison to previous programming periods.

In addition, stakeholders raised several points regarding the delivery model, and many of these related to uncertainties and inconsistencies in processes, procedures and systems that have underpinned delivery and implementation.

First, the delayed issue of comprehensive guidance meant that not all the required information was readily available when programmes commenced, and there was felt to be pressure to get SIs off the ground without knowing how the programme would operate, how IT systems would work, what the

reporting requirements would be, etc ("*we were operating blind*"). This resulted in some Lead Partners in the H&I Region being "*more trusting of our own experience than the official guidance*".

National rules and guidance were said to have been continuously amended in response to audit issues and subject to change over time. This made consistent application of the rules more challenging.

Further, changes to the guidance (for example, currently on Version 20 of Participant Guidance, Version 10 of the National Rules on Eligibility of Expenditure) resulted in retrospective evidence collection. This was said to have increased the administrative and record keeping burden on Lead Partners and Delivery Agents and proved to be extremely time consuming (including for the performance and compliance team in the MA). In some cases, this was extremely difficult or impossible to collect, and there was a sense that it could have been avoided if there had been better discussions at the start. Further, the evidence requirements were not considered responsive or appropriate to the needs of end beneficiaries, including vulnerable groups and individuals with complex needs. It has also had an impact on working relationships (e.g., between Lead Partner and MA, between Lead Partners and Delivery Agencies, between Delivery Agents and beneficiaries)

It was also noted that the Operational Programmes originally envisaged the use of simplified costs models, and that there were lengthy discussions and various reports that sought to provide advice on how the simplified cost models could best be introduced into the 2014-2020 programmes. This was with a view to reducing the amount of detailed record keeping previously required of delivery partners. In the end it was decided that there was not enough confidence that the data provided would meet EU scrutiny.

As a result, partners needed to design their operational delivery based on a cost-evidencing model (defrayed expenditure), whilst also having to deliver and evidence an output approach. This resulted in making the 2014-2020 programmes more administratively burdensome than ever for Lead Partners, Delivery Agents and beneficiaries.

The new MIS system, EUMIS, was reported to be years late in delivery. This meant that Lead Partners had to adapt or design their own unique MIS systems to capture financial, output and result data in the interim period. Limited intuitiveness and functionality of EUMIS have been key challenges, including for those who do not need to use it routinely. While some Lead Partners were involved in the development of EUMIS, not all were. This included some Lead Partners with significant ESIF allocations and who deal with a significant volume of beneficiaries.

This was considered a missed opportunity. The extent to which the system was able to produce a reliable picture of performance was also raised.

There have been a range of challenges regarding the claims process, for example:

- On occasions claims were rejected because they did not comply with the current guidance, which may be very different to the guidance which applied at the time that the claim relates to;

- Claims are years behind resulting in a back log of claims to be processed, with some on hold on EUMIS for more than 300 days. This means that data from EUMIS is not providing an up-to-date picture of operational delivery and activity;

- Delays in payments have had a considerable impact on Lead Partners' cashflow; and

- Previous programming periods had a strict quarterly claiming regime compared to the current programming period which was described as "more open-ended" – some Lead Partners have also delayed submitting claims and mistakes are then not being picked up on in good time as a result.

3.3.4 Timing of Funding

Would the programme have benefited from funding being delivered in stages rather than at the outset and if so to what extent?

The Structural Funds are designed as multi-annual programmes with annually profiled expenditure targets set out in the Operational Programmes that are approved by the EC.

In this programming period, the ERDF and ESF Programmes in Scotland have effectively run in two phases of delivery. By early 2018, the MA and Lead Partners assessed performance of the first phase and began the process of deciding which SIs to carry on to Phase 2 from 2019 (as extensions or with change requests), and any new applications. New SI and Operation applications were assessed by mid-2018 and final grant offers signed and returned by early 2019.

The reasoning behind this two-phased approach lies partly in the financial management structure laid out by EC regulations.

The EC provides the programme allocation on an annual basis. Funds must be defrayed, certified and claimed from the Commission within three years of the year in which they are allocated; this requirement is called the N+3 target. The N+3 target is slightly lower than the annual allocation itself as it excludes pre-financing and performance reserve commitments. The first target came at the end of 2018, given the date of approval of the Operational Programmes.

The performance framework was a new feature for the 2014-2020 programmes, linked to the performance reserve and performance review (in 2019 and at closure). It was introduced in the 2014-2020 regulations to monitor the implementation and delivery of programme outputs as planned.

The performance review exercise incentivises timely delivery as achievement of milestones at the end of 2018 releases the performance reserve (6% of the EU allocation) to performing priorities in the programme (the Youth Employment Initiative was exempt from the performance reserve). Non performing priorities lose the allocated reserve, which shall be reallocated.

The first performance review assessed financial and output progress until the end of 2018; the second will assess performance at the end of 2023 and may lead to financial corrections at programme closure.

In late 2019 the EC assessed that only three priorities had achieved sufficient progress towards targets in the performance review, namely: ERDF Priority 3 (Transition); ERDF Priority 5 (More Developed); ESF Priority 1 (More Developed).

It was intended to reallocate €5m from the Transition to the More Developed Region. However, following counter arguments led by HITC, the MA requested permission to re-allocate funds within the Transition Region. PMC Papers in June 2020[15] note that ultimately, the performance reserve was removed from all priorities except for those which had met targets, i.e.:

- ERDF Priority 3 (Transition) and Priority 5 (Transition and More Developed); and
- ESF Priority 1 (More Developed).

In effect, the Transition Region lost no ERDF funding overall, but some €5m ESF.

There were mixed opinions from stakeholders as to whether the phased approach had worked well; some appreciated the longer-term planning advantages of the two-phase system. Others pointed out that the SI/project development period was too rigidly fixed rather than enabling planning and development to proceed at a more natural pace, or to respond to changing needs and conditions.

3.3.5 Transparency

Is the programme delivery model sufficiently transparent to the beneficiaries of the funding?

The main sources of information about the Structural Funds are the SG as MA; its departments as Lead Partners; other national organisations operating as Lead Partners; and Local Authorities.

The MA has developed a Communications Strategy[16], which sets out the main roles, responsibilities, and activities to publicise and communicate the progress of the programmes to stakeholders, including Lead Partners, Delivery Agents and other beneficiaries.

Responsibilities of the MA communications staff include maintaining the SG digital channels (web, blog and social media); planning, coordinating and delivering any media-focused activity about ESIF; organising communications and promotional events; encouraging communications best practice and to support continuous improvement; providing general communications support and advice to Lead Partners; and attending and sharing information from communication seminars and events run by the EC.

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[15] PMC Paper 03-03 Operational Programme, June 2020
[16] European+Structural+and+Investment+Funds+-+Communication+Strategy.pdf

In terms of communicating about the Delivery Model with potential and actual Lead Partners and Delivery Agents, key platforms are the SG Structural Funds webpage which is regularly updated with information about SIs as well as updates on PMC meetings, and the weekly email communications from the MA to a subscriber list.

In turn, Lead Partners and Delivery Agents often set up web pages to promote SIs, programmes and Challenge Funds to their audiences, and in some cases provide comprehensive case studies and impact information (e.g. NatureScot's Natural and Cultural Heritage Fund, Transport Scotland's Low Carbon Travel and Transport Challenge Fund).

In June 2017, on request of the PMC, the MA undertook research to establish the issues around participation of the third sector in the programmes. It found that lack of match funding was the main barrier and decided not to use Technical Assistance funding to increase capacity building support to the sector.

HITC members argued that local authorities as well as third sector organisations have some difficulty finding out the various funding options available across the programmes. It was agreed that some work should be done to scope out options to improve visibility. We have not found minuted evidence that this was carried forward successfully.

4 Impact and Effectiveness

4.1 Introduction

This Chapter discusses the impact and effectiveness of the 2014-20 programmes in the H&I Region. It largely draws on stakeholder feedback and reports in the absence of up-to-date programme-level quantitative data due to the lag in claims information.

4.2 Impact in Highlands and Islands Region

Overall, what impact has the funding had in the H&I region?

Monitoring data is currently insufficient to allow for an assessment of the quantitative outputs and results of the programme in the Transition Region, as in the rest of Scotland.

The focus to date has been strongly on the financial performance of the programme and meeting N+3 and other financial performance targets, as well as meeting audit and compliance requests.

The late submission of full claims (due to issues with EUMIS, lack of management and administration resources, and protracted compliance/audit issues) have led to a lack of up to date, dis-aggregated performance data on which to assess the H&I progress towards objectives and targets.

Some SIs have yet to report any outputs and results, a rather concerning state of play at this stage in the programme.

We know from consultations that most SIs are behind in this aspect of reporting, although they have data in-house that is yet to be submitted. The reporting delays are therefore driven by decisions to be made around compliance. For example, the decision to remove many supported individuals and businesses due to the inability to meet the most recent set of compliance requirements means that many end beneficiaries will not be claimed for and therefore not reported.

All that said, stakeholders confirmed that the ESIF 2014-2020 programmes have continued to support a diverse range of economic and social development projects in the H&I Region, and an equally diverse range of beneficiary target groups.

For example, there was reference to:

- Much needed and impactful support for individuals with complex needs/barriers (e.g., employability, skills development, poverty reduction, money management, financial inclusion). As well as broad reach and engagement with those living in remote and inaccessible rural areas;
- Support for curriculum development to meet business and sectoral needs and opportunities across the H&I, including the development of microcredit workforce development courses;
- Support for business start-up, growth and innovation, adapted to meet different needs during the pandemic;
- The diverse range of community projects delivered by third sector and community organisations through, for example, the SG Aspiring Communities Fund and NatureScot's Natural and Cultural Heritage Fund;
- Increased scale of Undergraduate and Postgraduate provision and greater employer engagement leading to new curriculum development; and
- Infrastructure developments e.g.:
  - the 4G Infill Programme providing mobile infrastructure to remote areas
  - Low Carbon and Transport projects
  - SME and sector infrastructure e.g., life sciences, marine renewables
  - natural and cultural heritage projects.

Across the ERDF and ESF programmes, investment has enabled organisations to:

- Enhance and scale up existing activity;
- Design new services and infrastructure;
- Plug gaps in existing provision;
- Achieve significant leverage impact (i.e., match-funding);
- Support more beneficiaries;
- Deliver activity that might not have gone ahead otherwise; and
- Support the achievement of positive outcomes for beneficiaries.

Important Role and Contribution of ESIF Over Decades

Stakeholders emphasised the important role and contribution of ESIF investment over the years in the H&I Region in terms of supporting economic development and social wellbeing. For example, from enabling investment in digital connectivity to transport infrastructure, and from business support and growth to community development, etc.

Success over the years was said to have been a direct result of:

- The involvement of local and regional stakeholders in the full process of governance and delivery;

- Understanding and responding to specific regional challenges and opportunities; and
- The spirit of partnership working which exists in the H&I, trust and a shared commitment to making programmes a success.

With the Structural Funds drawing to a close, it was suggested that the next 18 months provide an opportunity for the MA and Lead Partners to promote the considerable achievements and legacy of the funds over the years.

4.3 Effectiveness in Addressing Specific H&I Needs

Do you think there are types of projects where funding has been particularly effective in addressing the specific needs of the H&I Region?

The general consensus among H&I stakeholders is that the region has not benefited as much as from the 2014-2020 programmes as it potentially could have, and the impact has been lower than previous programming periods.

Also, importantly, the general sense from H&I stakeholders was that there could have been greater (and earlier) stakeholder involvement in the process, and more input from H&I stakeholders to finalise programme design and delivery arrangements.

An element of frustration was expressed among stakeholders that there was insufficient understanding of the specificities and economic circumstances of the H&I Region, its development priorities and, importantly capacity to deliver.

According to some, the centralised approach with priorities set at a national level as opposed to a distinct Territorial Programme for the area has constrained effectiveness and impact. There was some consensus that greater impact could have been achieved for the H&I Region with:

- Greater input of the regional and local stakeholders in the full process of governance and delivery;
- Closer alignment with regional and local priorities (aligned to national framework/ strategy);
- Focus on the distinctive priorities and opportunities of the H&I Region and thereby improved targeting of resources; and
- Greater flexibility to shape and define the types of projects and activities to be supported.

These issues notwithstanding, some Lead Partners have highlighted successful projects that have addressed the particular needs of the region.

UHI Developing Scotland's Workforce

The SFC leads DSW with the aim of addressing regional skills gaps and skills shortages associated with key employment sectors. The project provides higher level skills to support the development of emerging growth areas in further and higher education across Scotland. In the Transition Region, additional resources have been made available to support UHI to increase its focus on employer engagement with a view to curriculum development in key sectors. This has been strategically effective, with a range of new courses, including microcredits for workforce development, now on offer.

Aspiring Communities Fund

SG offered the Aspiring Communities Fund to community groups and third sector organisations in deprived and fragile communities to address local needs and build on local assets to reduce poverty and enable inclusive growth. Initial take up from the H&I was low, and further targeted application rounds were added to boost uptake. There are some issues for community groups, particularly around compliance, and there would be a preference for more flexibility around staff costs. However, the H&I projects have been effective in addressing needs in rural areas; they have been resilient and adapted services during lockdowns to maintain delivery of services. Project beneficiaries include Caithness Voluntary Group, Sutherland Adaptive and Collaborative Communities; Support in Mind Highland and Islands Connections.

NatureScot Natural and Cultural Heritage Fund

This popular fund, which was added to the programme in 2019, supports new opportunities to promote the scenery, wildlife and culture of the H&I in ways which support inclusive and sustainable economic growth. It will help to retain jobs and sustain populations and services in rural communities through 11 physical and two virtual projects. Examples include Trees for Life rewilding centre near Loch Ness, and Skye Iconic Sites Project. The fund has increased NatureScot's reach and expertise in heritage and tourism development, albeit that project management and delivery has run into a few difficulties around compliance and claims.

Have any types of projects been notably less effective in H&I?

Some stakeholders have the opinion that some SIs have not focused on relevant priorities for the region and expenditure in the H&I Region has been lower in the current programming period (and therefore benefits and impacts have also been lower).

Examples of such projects have been mentioned elsewhere in the report; a typology might include factors such as:

- Projects that could not go ahead due to the burden of higher delivery costs in peripheral areas (e.g., Argyll & Bute Employability and PSI);
- Lower take up of national funds, possibly due to lower capacity in the region, e.g., Low Carbon Infrastructure Transition Programme (although there have been some good projects);
- Having to withdraw from SIs due to increased administrative burden for small teams; and
- Lower participation of community groups in areas such as travel and transport, due to the complex funding processes.

There was considered to have been a missed opportunity to maximise successful delivery and impact in the Transition Region as a direct consequence of such issues.

5 Legacy and Lessons

5.1 Introduction

This final Chapter summarises the strengths and weaknesses of the approaches taken in the 2014-20 programming period and offers some lessons for future programming. It also presents some recommendations for short-term actions for the current programme.

5.2 Summary of Strengths and Weaknesses

What has worked and what has not? Identify the strong and weak parts of the programme.

5.2.1 Systems and Administration of the Programme

It had been hoped that the streamlined delivery structure and narrower Lead Partner model would help increase compliance with national rules and audit requirements, simplifying management and delivery as well as reducing administrative burden for beneficiaries. For several reasons outlined earlier in the report, the intended simplification has not been achieved.

There was wide recognition of the need for compliance and accountability of public funds, but the main message was that the arrangements that underpinned the delivery model were bureaucratic, burdensome, cumbersome and overly complex.

> *"There was lots of talk of simplification, but the opposite has happened during this programme".*

These complexities around systems and administration have hampered the delivery of the programme in several respects: deterring or reducing participation and take-up of funds; increasing the resource burden on Lead Partners and Delivery Agents; straining working relationships; and resulting in many cases in the removal of beneficiaries from the programme.

Several important lessons can be drawn from the experience of the 2014-2020 programmes; while recognising the further complications arising from the additional tier of EU regulations and audit, many of these are applicable to any programme management context.

Lessons

- **PARTNERSHIP WORKING AND COLLABORATION** - there needs to be meaningful and ongoing involvement of regional and local stakeholders in the process (i.e., strategic planning, setting of programme priorities, appraisal, managing the delivery of funds, monitoring and evaluation, tackling any difficulties). There should be a spirit of trust and respect.
- More **USER-FRIENDLY SYSTEMS**, better functionality (i.e., EUMIS), with input from operational stakeholders in design and full testing prior to programme start.
- The need for **COMPREHENSIBLE AND CONSISTENT GUIDANCE**. It was suggested that compliance meetings between programme management and applicants at the point of project approval would help to communicate rules and iron out any ambiguities.
- **STREAMLINED APPLICATION AND CLAIMS PROCESSES** relative to the scale of the project.
- **PROACTIVE PORTFOLIO MANAGEMENT OF DELIVERY PARTNERS** to ensure mutual understanding and to maintain focus on achievement of goals and objectives.
- **SIMPLIFY AND REDUCE THE ADMINISTRATIVE BURDEN** on Project Leads and Delivery Agents. The administrative resources required was under-estimated at all levels and staff turnover (and loss of experience) has made this more difficult.
- More **"TRUST"** in Lead Partners' existing financial management and audit procedures and mechanisms.
- A greater focus on **MONITORING OUTCOMES RATHER THAN INPUTS**.
- More **EFFICIENT AND SPEEDIER CLAIMS, PAYMENT AND CHANGE REQUEST** processes.
- Improved **SCHEDULING OF COMPLIANCE CHECKS AND AUDITS** to avoid over-burdening individual organisations with multiple parallel requests for information.

5.2.2 Governance Arrangements

Those involved in the previous operational programmes (in programme management, governance and delivery) had a detailed knowledge of the H&I Region, its key sectors and communities, and had well established working relationships and trust.

The rationale for the HITC was to provide a mechanism for continued oversight of the use of funds in the Transition Region. Members did not always feel trusted and listened to, although the culture has improved over time.

The strengths and weaknesses of the governance arrangements are summarised on the next page.

Strengths

- PMC and HITC effectiveness have improved over the programming period, by gradually developing a more equal partnership culture;
- Improved relevance with focus on ERDF/ESF programmes and removal of EAFRD/EMFF;
- Improved transparency and, latterly, better quality information on H&I;
- Active participation of members, particularly in HITC;
- Reallocating funds between priorities and increased intervention rates has enabled more funds to be spent; and
- Steps taken to increase opportunities for capital projects.

Challenges and Weaknesses

- It took time to bed in the new programme structures, including the position and influence of the HITC in programme governance;
- Late start and timing issues. The Mid Term Review was too early to make effective change;
- Six monthly meetings were not frequent enough to keep up to speed with developments, particularly at times of crisis;
- Weak functionality of EUMIS and late claims has reduced the quality of monitoring data and reduced the capacity of governance members to achieve proper oversight, including of progress within the H&I;
- Financial losses to the programme budget – N+3 and performance reserve;
- Strong financial focus to detriment of strategic discussion; and
- Unable to find roundly acceptable solutions to compliance/audit challenges.

Lessons

- Importance of having UP-TO-DATE PERFORMANCE DATA AND ACTION-ORIENTED MEETING MINUTES to inform strategic discussions and enable oversight of programme.
- A greater focus on MONITORING OUTCOMES RATHER THAN INPUTS.
- Working Groups can help to widen the REPRESENTATION OF KEY DELIVERY ORGANISATIONS IN PROGRAMME MANAGEMENT to address arising issues, bring additional expertise, and enhance insights to inform programmes.

5.2.3 Identification and Development of Priorities and Targets

SG had undertaken a process of stakeholder consultation to help shape the 2014-2020 ESIF programmes (e.g., thematic priorities, governance, delivery mechanisms, etc), and this was a sensible approach allowing for strategic input from partners.

The consensus among H&I stakeholders was, however, that partners had possibly not been given sufficient opportunity to help shape and inform the development of programme priorities for the Transition Region, and that not all of their views and contributions were ultimately reflected in the final approach. It was suggested that greater dialogue might have helped ensure a more strategic and sufficiently tailored approach in the H&I Region, including a more focused set of activities for the region.

Strengths

- H&I partners have worked together for a number of years on regional programme development and understand the needs, challenges and opportunities for the region well.

Weaknesses

- H&I partners did not feel their suggestions and priorities were sufficiently taken into consideration during the programme design stage;
- The programme targets were not sufficiently developed at the time of the ex-ante evaluation to enable a full assessment of their appropriateness and value; and
- The Mid-Term Review was scheduled too early in the programme cycle to review achievements and progress as a whole and make any necessary adjustments.

5.2.4 Regional and Local Needs, Rural and Urban Needs etc.

A Scotland-wide one-size-fits-all policy approach was generally considered not to have worked as well for the H&I Region. It was reported that what works well in one area does not always easily translate to another. For example, the Employability Pipeline had been well developed in North Ayrshire but was impossible to re-create in a sparsely populated area like Argyll and Bute. The assumptions around costs were insufficiently flexible to enable all regions to participate in the same way.

The creation of new employment, similarly, has different impacts in different areas. What constitutes an impactful project in a remote rural community may be quite different from that in a more developed urban area.

The stakeholders highlighted the ongoing need for targeted support to address the specific territorial challenges faced by the H&I Region, which have been enduring issues requiring long-term policy intervention over many decades.

It was considered that the specific way that certain Priority Axes had been defined and delineated, had not always allowed for the more tailored approach relating to geographical remoteness and dispersed populations, lower R&D base, and overall economic competitiveness of the H&I Region.

That said, in many parts of the H&I Region, Lead Partners and Delivery Agents have worked well together to ensure that projects/activities assisting people with more complex barriers to be supported when other 'standard national' funds were insufficient to cover the specialised support they required.

Strengths

- Specific SIs to address rural issues and opportunities; and
- Local Authorities have been able to design the business, employability and social inclusion provision for their areas, bringing in local partners with specific expertise.

Weaknesses and Challenges

- One-size-fits-all approach. In many cases thresholds applied, minimum project costs and eligibility criteria/definitions acted as barriers to participation for organisations located in the H&I Region; and
- Limited scope to expand on the defined SIs.

Lessons
COSTS OF DELIVERY in urban and rural contexts can vary widely; this must be taken into account in programme design.   - The impacts of **JOB CREATION** in fragile rural communities is also quite different from urban job impacts.

5.2.5 Fit with Wider Policy and Funding Activities across Scotland

Although the parameters were at times felt to be too narrow for H&I needs, there is no doubt that the programme has been designed to fit and add value to the existing domestic policy landscape. This has been seen in the expansion of the Modern Apprenticeship framework, more in-depth and tailored business support, and advances in low carbon technologies contributing to Scotland's sustainability targets.

Strengths

- Aligned with SG strategic priorities with respect to smart, sustainable and inclusive growth;
- Integrated with existing/evolving domestic mechanisms, e.g., Business Gateway;
- Provided additional resources; and
- Involvement of national agencies in regional policy creates better awareness of different conditions across the country.

Weaknesses and Challenges

- Challenges to find match funding within constrained public sector budgets.

Lessons

- A **REGIONALISED APPROACH** may allow for further tailoring and integration with regional policy priorities.
- There should be a continued effort to link up regional policy measures to **WIDER POLICIES** such as transport and environment.

5.2.6 Compliance and Scrutiny

As already extensively discussed, the weight and complexity of processes for compliance and scrutiny of expenditure has been the main source of tension among programme stakeholders.

Strengths

- Many Lead Partners have developed sophisticated systems for managing the claims.

Weaknesses

- National rules and guidance were continuously being amended;

- Audit and compliance demands have not always been proportionate to the level of expenditure and have been well in excess of that required by other funding sources;
- Adapting administration processes to changing rules and retrospective evidence collection were time consuming for stretched Lead Partner and MA staff and strained relationships with Delivery Agents and end beneficiaries;
- The compliance burden has affected Lead Partners' ability to submit timely claims, and verification processes can be very long and add to pressures on staff; and
- Staff changes can disrupt the process considerably as high levels of experience and knowledge are required to manage the process efficiently and effectively.

Lessons
- More manageable and **PROPORTIONATE COMPLIANCE AND AUDIT** requirements, similarly relative to the scale of the project.   **RETROSPECTIVE REQUESTS** for evidence to ensure compliance for audit purposes should be avoided.

5.2.7 Measures to Ensure Performance and Delivery

The report discusses a range of factors that have made measurement of performance difficult, including the IT system and lack of up-to-date information at a granular level. Another difficult factor has been the pressure to prioritise financial performance, meaning that less time has been available to discuss strategic issues and whether any adjustments need to be made to ensure the programme objectives are being met. Lead Partners have responded to challenges, however, making a range of adjustments to improve performance and delivery throughout the programming period.

Strengths

- Lead Partners have been able to submit change requests to revise financial profiles and targets;
- Lead Partners have taken steps to adjust SIs to better meet needs in the Transition Region; and
- Some national organisations have regional offices/officers in place.

Weaknesses and Challenges

- Varying capacities of Lead Partners and others to administer SIs and comply with programme rules, requirements and processes;
- Large backlog in claims, now requiring urgent attention to avoid running out of time for processing and payment; and
- Loss of some experienced staff e.g., Portfolio and Compliance Managers with knowledge of the H&I context reduced the capacity of the MA to support SI performance and delivery.

Lessons
• **IT SYSTEMS** are critically important to the day-to-day functioning of programme management. Their design needs to be properly resourced and informed by a range of users. Training on its use is essential.

5.2.8 Response to and Recovery from the Pandemic

The COVID-19 pandemic has been a major unforeseen shock for the programmes, with a wide-reaching and severe impact on businesses, on individuals, on programme management, Local Authorities and other Lead Partners and Delivery Agents. It has made programme management and delivery more difficult in a number of ways:

- Staff resources were diverted in SG, Local Authorities and other organisations to provide an emergency response (e.g., disbursing emergency grants to businesses) – this reduced staff inputs to managing the programme and project activities; and
- Lockdown meant that staff and beneficiaries were working remotely, affecting continuity of projects, interrupting on-site activities, reducing expenditure, and making evidence gathering more difficult.

Taking the lead from the EC, the MA introduced a number of changes to the programmes to ease some of the difficulties and enable an appropriate response, including relaxation of eligibility criteria for support to SMEs; channelling of unused funds into PPE equipment purchase to support the health sector (at 100% intervention rate); and simplified procedures.

It is likely to have longer term implications that need consideration for future regional funding programmes, such as the ongoing impact on the economy and specific sectors, e.g., the tourism, culture and heritage sectors which are important for the H&I Region; the acceleration of digitalisation of e.g., the tertiary education sector; the exacerbation of inequalities and impact on specific groups e.g., young people not in education or training.

There will be an important role for future funding programmes to tackle these disparities, for example, through ensuring digital access, supporting business digitalisation, and measures for inclusive growth including the youth unemployment.

Strengths

- Responded well in adapting and softening eligibility criteria so that businesses and individuals affected by the pandemic could receive support.

Weaknesses and Challenges

- Staff were redeployed into emergency pandemic management duties;
- Staff could not access information, evidence and data in closed offices, and could not obtain 'wet signatures' from beneficiaries. Uncertainty arose over relaxation/adaptation of evidence requirements to address the situation;
- Some inescapable barriers to continuation of delivery; and
- Likely to have continued impact on programme performance and achievements.

Lessons
- Programme structures need to be **AGILE** to respond to major shocks.   - Ongoing measures to **SUPPORT ECONOMIC RECOVERY** will need to be built into future regional funding. The impacts of the pandemic will require ongoing assessment to design an appropriate response.

5.3 Factors of Successful Partnerships

Looking forward, what factors make a successful partnership in the context of programme delivery, and can these factors be replicated and utilised for the replacement funding programmes in the future?

In our earlier evaluation of the Partnership Delivery Model in Scotland, we set out principles for effective partnership working, derived from the experiences of this programme, that hold true for any future replacement funding programme. These are:

- Shared goals, purpose and values;
- Clarity of roles, responsibilities and expectations;
- Decisions that listen to, and take into account, the views/experiences of different stakeholders;
- An equal partnership;
- Building open, honest and trusted relationships;
- A focus on outcomes;
- The key importance of regular communication both vertically and horizontally across organisations; and
- Sharing experience, knowledge, insights and ideas.

Turning specifically to the H&I Region, there are further factors that could usefully be considered to inform future programme design. These are highlighted below.

Lessons
- A **MULTI-ANNUAL PROGRAMME** with ringfenced funding will help to ensure that the enduring challenges for the region will continue to receive consistent and reliable financial support.   **PARTNERSHIP WORKING AND COLLABORATION** has been a strong feature of the H&I delivery landscape. There is continued value in taking an inclusive, partnership-based and listening approach to programme development and delivery. There should be a spirit of trust and respect.   - Programme development takes time and requires an **ITERATIVE APPROACH** involving strategic and operational staff. This crucial phase of the programme lifecycle should incorporate the reflections on past programming experience.   - The current centralised approach to programme design, delivery and management was considered to have reduced the quality and impact of the programmes, in comparison to

the more **TAILORED PARTNERSHIP MODEL** which centred around the specific requirements in previous H&I programmes (i.e. regional/local devolution).

- There are ongoing challenges in the H&I that could benefit from a **COMBINED REVENUE AND CAPITAL, MULTI-STRATEGIC INTERVENTION** approach.

- A **PLACE-BASED APPROACH** - local accountability and management of funding programmes, with priorities set locally/regionally within a broad national framework work best. Resources can be applied flexibly to respond to the particular needs of the region. This also enhances stakeholder ownership and involvement and an integrated and joined-up approach.

- Consideration needs to be given to Local Authority areas that are influenced by more than one regional centre, in particular North Ayrshire and Argyll and Bute. There should be **FLEXIBILITY** in programming to enable a diversified regional approach.

- **PLATFORMS TO SHARE EXPERIENCES** and to discuss issues are considered valuable.

- An **ACCOUNT MANAGEMENT APPROACH** between Programme Managers and Project Leads helps to build relationships, mutual understanding and capacities to deliver effective programmes and activities.

5.4 Short-Term Recommendations

While the main aim of the study lessons has been on future programming, there are some shorter-term improvements that could help to bring the current programmes to a successful conclusion:

- MA should **GATHER CURRENT PERFORMANCE INFORMATION** from Lead Partners, separately from the formal claims process, to better understand the current and forecast achievements of this programming period. This should be presented by Priority Axis and Programme Region to enable proper oversight of progress by the stakeholders, especially PMC members;

- Consideration should be given to what **ADDITIONAL SUPPORT MEASURES** (e.g., staffing, simplification) can be offered to Lead Partners to process the remaining claims in the short period available;

- MA should take steps to **IMPROVE INTERNAL COMMUNICATIONS** and planning so that MA staff can avoid overloading individual Lead Partners with successive information requests with short timeframes for completion, including programme updates and audit and compliance requests;

- Lead Partners should **CARRY OUT SI/FUND EVALUATIONS** to assess their own performance and to inform continuation of activities into future funding programmes. Discussions between national organisations and Local Authorities should be underway to explore how a regional/local delivery model might work under the UK Shared Prosperity Fund; and

- As the long history of Structural Funds in Scotland comes to a close, the MA and Lead Partners should work together to **PUBLICISE THE CONSIDERABLE ACHIEVEMENTS**, using a range of methods and media including YouTube videos and various social media platforms.

6 Appendix 1: Related Research

6.1 Overview

It is important to set the consultation findings within the wider context of related research commissioned by SG - EVALUATION: EUROPEAN STRUCTURAL AND INVESTMENT FUNDS DELIVERY STRUCTURES AND PARTNERSHIP WORKING (Final Report, January 2022).

That research was pan-Scotland and included consultation with Lead Partners, including those operating in, and serving the Transition Region. As might be expected, themes that were raised through this latest research relating to the H&I Region chime with the earlier Scotland-wide research.

Many of the issues raised were therefore not unique to the experience in the H&I Region. We do not propose to repeat the earlier research findings in any detail in this report, rather we have summarised the main points below.

6.2 Issues and Challenges

Many issues and challenges identified through the Evaluation of the Effectiveness of the Delivery Structures and Partnership Working for the 2014-2020 programmes (Scotland-wide research) were not directly connected to the delivery model per se. Rather they reflected:

- A range of internal factors (e.g., the processes, procedures and systems that have supported delivery of the 2014-2020 ESIF programmes); and
- Unforeseen external factors (e.g., Brexit, COVID-19).

Taken together, these factors made programme management and delivery more challenging and constrained and hindered performance.

There were a series of delays at the outset, alongside wider factors that have arisen during the delivery phase, that together have affected programme performance. These can be categorised as follows:

- Delays between Operational Programme and SI approval;
- Delays in Lead Partners receiving formal letters of award and knock-on delays in SIs becoming operational;
- Challenges for Lead Partners and Delivery Agents in securing match-funding;
- ESF and ERDF Programme suspensions;
- Delays in the issue of programme guidance;

- Changes/updates to guidance and eligibility criteria, resulting in the drip-feed of communication, the potential for misinterpretation at different levels of the elongated governance chain, and resultant retrospective evidence collection;
- The claims and change request process (e.g., turnaround time, backlog on EUMIS, new claims/change requests cannot be submitted if there are any outstanding on EUMIS); and
- The considerable administrative effort required to satisfy audit and compliance requirements.

The partnership delivery model has therefore had to contend with serious issues within the management and control system, the causes of which could be partly due to a lack of good preparation and a strong partnership approach at the outset.

There was also considered to be an increased delivery and a financial risk for Lead Partners, with the latter arising from claims delays and compliance.

6.3 Learning Identified

A strong message from the related Scotland-wide research was around the depth of knowledge and expertise SG and Lead Partners have in the design, management and delivery of European funding programmes. It was considered vitally important that this expertise was harnessed and utilised to help inform future funding programmes.

There was equally strong support expressed that the significant learning from the 2014-2020 programme (and its predecessors), as well as elements that have worked well in practice, be retained and further built upon in some shape or form going forward.

A summary of the MAIN LESSONS LEARNED are summarised in **Table A.1**.

Table A.1: Lessons Learned

Lessons Learned
- Multi-annual funding provides security/stability for planning, staffing and delivery.   - Future funding should be much easier to access and manage – it would not require to be tied to EU requirements, and there is an identified need to reduce bureaucracy and complexity.   - Clear and comprehensive guidance should be developed and communicated from the outset. Ideally this should be fixed for the programming period. However, if there are to be changes/updates this should not be applied retrospectively.   - A defined structure and timetable to support a more efficient claims process.   - There could be a more proportionate and flexible audit regime.   - Having audit experience in the MA could have improved understanding of compliance issues (while maintaining an appropriate level of separation between the MA and AA).   - Training and capacity building support is needed at the application stage and on an ongoing basis. It was noted that some newer funding streams were easier to access and manage, and that there were lessons that could be learned from the approaches of other funders.   - There could be scope for greater flexibility to be able to respond to changing circumstances as well as the unique set of circumstances faced by Scotland's remote, rural and island communities.   - Dynamic, effective and strong lines of communications, coordination and collaborative working is essential.   - Platforms to share experiences and to discuss issues are considered valuable.

Source: EKOS Final Report to the Scottish Government, Evaluation: European Structural and Investment Funds Delivery Structures and Partnership Working, 26th January 2022.

7 Appendix 2: Consultees

We are grateful to the following organisations for their participation in the research.

Organisation

Argyll & Bute Council

Comhairle nan Eilean Siar

BIG Lottery Fund

European Policies Research Centre, University of Strathclyde (x2)

Highland Council

Highlands & Islands Enterprise (x3)

Highlands & Islands European Partnership

Moray Council (x2)

NatureScot

New Start Highland

North Ayrshire Council

Orkney Islands Council (x2)

Scottish Council for Voluntary Organisations

Scottish Funding Council

Skills Development Scotland

SG Digital Directorate

SG Energy & Climate Change

SG Housing & Social Justice

SG (Managing Authority) (x4)

Shetland Islands Council

University of the Highlands & Islands

Transport Scotland

Zero Waste Scotland