

Highlands and Islands of Scotland European Regional Development Fund 2007-2013 Programme

CCI: 2007UK161PO001*

2014 Annual Implementation Report



EUROPE & SCOTLAND
European Regional Development Fund
Investing in your Future



The Scottish Government
Riaghaltas na h-Alba

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1. IDENTIFICATION

1.1 Criteria

OPERATIONAL PROGRAMME	Objective Concerned Convergence
	Eligible Area Concerned Highlands and Islands of Scotland
	Programming period 2007-2013
	Programme Number CCI: 2007UK161PO001
	Programme Title Highlands and Islands of Scotland: European Regional Development Fund Programme 2007-2013
ANNUAL IMPLEMENTATION REPORT	Reporting Year 2014
	Date of Approval of the Annual Implementation Report by the Monitoring Committee: 24 June 2015

1.2 Ministerial Foreword

Awaiting Ministerial approval - DRAFT.

This Annual Implementation Report presents the activities for the Highlands and Islands Scotland European Regional Development Fund Programme in 2014.

During 2014 Scotland's economy experienced positive growth accompanied by a sustained improvement in the labour market, indicating that recovery was indeed starting to have an impact; there have also been encouraging signs that business confidence is improving.

The Economic Recovery Plan continues to play an important role in this, seeking to front-load spending to help build recovery by supporting activities that will improve the long term competitiveness of the economy. This meant that by the end of 2014, this ERDF Programme was fully committed. Indeed, our positive approach to the use of the funds and willingness to over-programme augurs well for high levels of outturn against commitments and stakeholders ability to achieve desired outcomes.

A total of 122 ERDF projects have been funded to date in the Programme area. ERDF continues to make a particularly important contribution at a time when infrastructure spend and access to credit for SMEs are under pressure. During the course of this Programme, investments have been made in the knowledge and design sectors, further and higher education establishments, and enterprise and growth sectors. Twenty-five new projects received assistance during the year.

By the end of 2014, the N+2 expenditure target for the Programme was met, confirming expectations now that final targets will also be met.

During the course of 2014, considerable effort has been invested in the development of the new 2014 – 2020 European Structural and Investment Fund Programmes. The three EU2020 objectives of smart, sustainable and inclusive growth are closely aligned with the Scottish Government Economic Strategy, including a tighter focus on building the low carbon economy, on R&D and innovation in all areas and sectors of Scotland, and on investing in our human capital through employability and skills initiatives, the Scottish Government and stakeholders developed ideas around how to encourage greater synergies between the structural, rural development and fisheries funds and the wider European funding landscape.

I was particularly pleased to welcome the Commission's approval of the ERDF and ESF Operational Programmes for Scotland for 2014-2020 and I look forward to working with all of you on these, building on the success of the 2007-2013 Programmes and making the most of these funds in future in Scotland.

Keith Brown
Cabinet Secretary for Infrastructure, Investment and Cities



2. OVERVIEW OF IMPLEMENTATION

2.1 Achievement and analysis of Programme progress

This section examines the progress made during the year in implementing the Highlands & Islands of Scotland ERDF Operational Programme. It has been reviewed from a range of different financial and physical perspectives and the data has been extracted from the EUROSYS online application and claims system. The financial tables in Section 2.1.2 highlight expenditure paid out by the project beneficiaries and included in payment claims sent to the Managing Authority. The remainder of this section highlights the physical information of the Operational Programme.

2.1.1 Information on the physical progress of the Operational Programme

The physical progress against the indicators and targets contained within the Operational Programme are detailed within Chapter 3. The table below details progress against each of the 3 Priorities to the end of 2013, from commitments made under Rounds 1 – 9, inclusive. This includes the Operational Programme target, the forecast targets from committed projects and the actual achievements to date.

Type	Code	Indicator	Unit	Target	Forecast	% Target met by Forecast	Actual Achieved	% Target met Actual by actual
Output	R101	Number of individuals and new enterprises receiving advice/consultancy		800	1459	182%	1,298	162%
Output	R102	Number of enterprises receiving financial support		250	379	152%	233	93%
Output	R103	Number of enterprises receiving support for e-commerce		150	516	344%	146	97%
Output	R104	Number of enterprises receiving support for energy-saving and resource-efficiency		350	327	93%	238	68%
Output	R105	Number of social enterprises receiving support		200	309	155%	269	135%
Result	R106	Number of new business starts resulting from support		400	122	31%	84	21%
Result	R107	Number of ecommerce strategies developed		100	203	203%	199	199%
Result	R108	Number of enterprises implementing environmental audits and energy-saving/resource efficiency systems		250	144	58%	107	43%
Output	R110	Number of enterprises receiving support through the Strategic Delivery Body		400	664	166%	667	167%
Output	R111	Area of business space created or modified	m2	20,000	260697	1303%	170,055	850%
Output	R112	Number of commercialisation activities		189	155	82%	189	100%
Result	R113	Increase in turnover in enterprises supported by Strategic Delivery Body	£m	40	312086	780215 %	18	45%

Result	R114	Number of new products and services developed		10	148	1480%	157	1570%
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Type	Code	Indicator	Unit	Target	Forecast	% Target met by Forecast	Actual Achieved	% Target met Actual by actual
Result	R116	Number of gross jobs created		2,200	3734	170%	905	41%
Output	R201	Number of research facilities supported		30	19	63%	11	37%
Output	R202	Number of elearning/training facilities supported		60	19	32%	51	85%
Output	R203	Number of RTD projects supported		30	52	173%	28	93%
Output	R204	Number of renewable energy research projects		10	21	210%	15	150%
Result	R205	Number of patents filed		20	1	5%	18	90%
Result	R206	Number of vocational training infrastructure projects supported		10	13	130%	36	360%
Result	R209	Number of new products and services based on natural and cultural assets developed		50	132	264%	101	202%
Result	R211	Number of gross jobs created		1,300		0%	957	74%
Output	R301	Number of e-learning/childcare and other community facilities supported		15	14	93%	12	80%
Output	R302	Area of business space created or modified		2,750		0%	2,934	107%
Output	R303	Number of transport projects supported		15	25	167%	18	120%
Output	R304	Number of ICT infrastructure projects supported		1	1	100%	0	0%
Output	R305	Number of renewable energy projects supported		10	6	60%	5	50%
Result	R306	Number of gross jobs created		600	60	10%	60	10%
Output	R311	Number of energy efficiency initiatives supported in Social Housing		4	3	75%	3	75%
Output	R312	Number of social housing units improved		400	315	79%	315	79%

2.1.2 Financial information

2.1.2.1 Payments to Project Sponsors

Priority	Fund scope	Expenditure paid out by the beneficiaries included in payment claims sent to the Managing Authority	Corresponding Public Contribution	Private Expenditure	Expenditure paid by the body responsible for making payments to the beneficiaries	Total payments received from the Commission	% of Allocation Paid
1. Enhancing Business Competitiveness Commercialisation And Innovation	ERDF	113,226,567.34	113,226,567.34	0	45,100,500.94	37,680,677.59	69%
2. Enhancing Key Drivers Of Sustainable Growth	ERDF	90,754,186.61	90,754,186.61	0	40,688,986.50	39,294,803.72	88%
3. Enhancing Peripheral And Fragile Communities	ERDF	43,572,801.08	43,572,801.08	0	17,359,236.58	13,242,334.78	69%
4. Technical Assistance	ERDF	4,194,328.05	4,194,328.05	0	2,097,164.03	1,843,107.82	50%
Grand Total		251,747,883.08	251,747,883.08	0	105,245,888.04	92,060,923.92 ¹	76%

Figures above are in Euros (€).

¹ Still awaiting payment of Payment Request 8 (see table below)

2.1.2.2 Payment Received from European Commission

The table below shows the payments requested and received² under the Highlands and Islands (H&I) ERDF 2007 – 2013 Programme. The H&I ERDF N+2 target was met by the end of 2014.

H&I ERDF CCI:2007UK161PO001		Taken from EC Declarations			Taken from EC Receipts				
Payment Request No	Date	Expenditure Declared	Cumulative Expenditure	EC Declaration Community Support Requested	Community Support Received	Date Received	Sterling Received	Cumulative Sterling Received	Exchange Rate
2% Advance	05/10/2007	N/A	N/A	N/A	€ 2,437,247.84	05/10/2007	£1,693,887.25	£1,693,887.25	0.6950
3% Advance	11/04/2008	N/A	N/A	N/A	€ 3,655,871.76	11/04/2008	£2,917,385.66	£4,611,272.91	0.7980
2.5% Advance	24/04/2009	N/A	N/A	N/A	€ 3,046,559.80	24/04/2009	£2,699,251.98	£7,310,524.89	0.8860
1	09/09/2009	€ 911,925.65	€ 911,925.65	€ 455,962.83	€ 455,962.83	17/02/2010	£397,417.20	£7,707,942.09	0.8716
2	22/12/2009	€ 26,649,445.20	€ 27,561,370.85	€ 11,487,785.79	€ 11,487,785.79	17/02/2010	£10,012,754.09	£17,720,696.18	0.8716
3	16/12/2010	€ 31,941,412.23	€ 59,502,783.08	€ 13,581,664.84	€ 13,581,664.84	03/05/2011	£12,153,077.51	£29,873,773.69	0.8948
4	06/12/2011	€ 53,949,178.55	€ 113,451,961.63	€ 23,379,649.07	€ 23,379,648.93	14/12/2011	£19,611,574.38	£49,485,348.07	0.8388
5	09/02/2012	€ 16,970,184.46	€ 130,422,146.09	€ 6,989,051.09	€ 6,989,051.09	15/03/2012	£5,795,887.30	£55,281,235.37	0.8293
6	18/12/2012	€ 43,132,908.96	€ 173,555,055.05	€ 17,712,657.53	€ 17,712,657.61	20/09/2013	£14,933,524.01	£70,214,759.38	0.8430
7	18/12/2013	€ 45,613,635.45	€ 219,168,690.50	€ 18,454,152.82	€ 18,454,152.82	17/02/2014	£15,113,563.74	£85,328,323.12	0.8190
8	19/12/2014	€ 32,579,192.57	€ 251,747,883.07	€ 13,184,964.14					
Cumulative Community Support received				€ 105,245,888.11	€ 92,060,923.91				

² Payments requested and received differ in the two tables as a result of rounding.

2.1.2 Commitment

In terms of commitments, the following approvals were made during 2014 with commitment to date also shown. This indicates a reduction in financial values approved against priorities, this reflects a number of projects closing and acceptance of requests to reduce total project size, particularly in Priority 1. This continues to reflect a modest over-profiling related to the Programme allocations.

Project Approvals				
	2014		Total to end 2014	
Priority	No. of Project Approvals	Sum of Grant Award	No. of Project Approvals	Sum of Grant Award
1	2	£343,142	39	£48,204,967
2	0	£ -	38	£37,555,645
3	0	£ -	40	£15,368,382
4	5	£ -	7	£3,577,833
Total	25	£ 343,142	122	£104,706,828

2.1.3 Breakdown of use of the funds

All projects are required to submit applications through the EUROSYS online application system to enable the appropriate information required under the Council Regulation (EC) No. 1083/2006 Article 37(d). The categories of assistance have been compiled by all applicants receiving Structural Fund assistance.

Details of support in line with the Lisbon Codes can be found in Annex A.

2.1.4 Assistance by target groups

The 2007 – 2013 Programme identified a range of groups, key sectors and geographically targeted areas in the Highlands and Islands Programme area which would be prioritised for ERDF support during the lifetime of the Programme. ERDF funding has been targeted as follows:

Target Groups

- SMEs (all priorities);
- Community and business development within remote and peripheral areas (Priority 3);
- Social Enterprises (all priorities);
- Entrepreneurs and business start-ups (principally through Priorities 1 and 2).

Key Sectors

- Renewable energy;
- Tourism and cultural industries (including natural heritage);
- Food and drink;
- Forestry;
- Life Sciences.

2.1.5 Assistance repaid or re-used

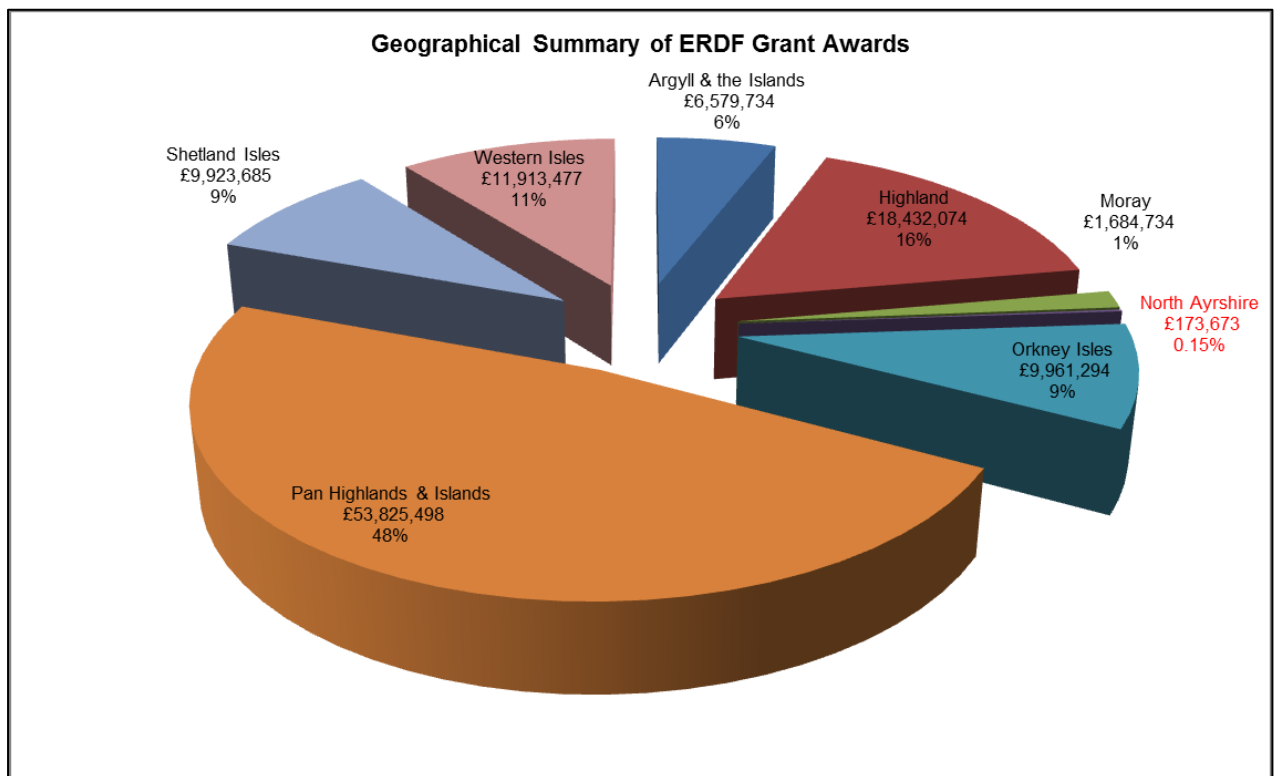
During 2014 one project was decommitted. Project H&I/ERDF/2008/3/1/0506 Highland Business Growth Fund was decommitted as a result of errors during the setup of the Fund.

2.1.6 Quantitative Analysis

2.1.7.1 Geographical Analysis

The Programme has entered its final years and has seen near full commitment. Two new projects, both operating at a pan Highlands & Islands level, were approved in 2014. Both focus on support for SMEs, one focusing on capacity for business growth and one on providing graduate skills to the third sector targeting work around specific business needs

Other projects continue to receive assistance as part of a wider pan-Scotland provision of support through the Technical Assistance Priority looking at the implementation of Structural Funds ahead of the new 2014 – 2020 Structural Funds Programmes. Amongst the areas covered included gender mainstreaming and social innovation.



2.1.7.2 Horizontal Themes

Horizontal themes underpin the projects which are funded by the Operational Programmes. A key measure in ensuring that good practice is embedded within the programme, horizontal themes must be an integral part throughout the life cycle of a project. The three themes –social inclusion, equal opportunities and environmental sustainability – are present throughout the entire process, from development through delivery and monitoring and evaluation. To this end, on the spot visits monitor the progress of the projects to ensure that the horizontal themes are being instituted as core values within the projects. Visiting team members ask to see clear examples and evidence of how the project management has considered and implemented the values of the three themes. Project management is also responsible for ensuring that partners and sub-contractors involved in the project follow the same policies.

The purpose of this summary is twofold: firstly it will describe the ways in which these projects contributed to horizontal themes and, secondly, discuss our preparation for the programme. First of all, however, the report will describe the horizontal themes and their purpose.

Social Inclusion

The Scottish Government is committed to provide the opportunities and the incentives for all to contribute to Scotland's sustainable economic growth. Reducing inequalities in income and opportunity is critical to achieving the Scottish Government's aim of making Scotland a better, fairer place for everyone, no matter where they live. Despite progress in a number of areas, substantial differences in life chances, quality of life and social inclusion are evident.

By reconnecting large numbers of people in disadvantaged groups and communities to the mainstream economy, and encouraging work that pays fairly, we help more people in Scotland to fulfil their potential; increase economic growth and participation in our labour market and create greater social equality across Scotland. This improves the capacity of individuals and their families to lift themselves out of poverty.

Welfare Reform

The UK Government has introduced the Welfare Reform Act 2012 which will see significant changes to the welfare system impacting on people and policies in Scotland. Welfare Reform is a matter wholly reserved to the UK Parliament however the reforms will impact upon people and services across Scotland. This is why we are committed to working with our partners and stakeholders to better understand and, where possible, mitigate the worst effects. We are working in partnership with local authorities, third sector, health sector and the housing community in a collaborative effort to support people in the transition to the new benefits regime and to do what we can to mitigate as many adverse consequences as possible.

Social Inclusion	
Project Applicant	Mull and Iona Community Trust
Project Reference	H&I/ERDF/2008/2/1/0039
Project Title	Community Enterprise Centre: Mull & Iona
Grant Award	£ 464,381 on Eurosys £528,162 grant requested
Project Description	<p>The design and building of a centrally located, enterprise 'hub', providing new business resources, enterprise advice and support; training services and workspaces (offices, training room, a charity shop and therapy room) for rent to SMEs, micro-businesses, social enterprises and community groups on Mull and Iona. The project will address the market failure in provision as these facilities are not currently available in these fragile communities. It will deliver services and provide facilities not currently provided on Mull.</p> <p>The project is aimed to improve the economic sector development in order to increase the growth and output of local enterprises and a long term income stream through the creation of community based assets. It will help local people develop skills and reach their potential as at present there are few quality services available.</p>
Addressing Horizontal Themes	<p>The building is located at the geographical centre of the islands, adjacent to the main ferry and bus terminal and main car park and the opening hours will be flexible linking in with ferry and bus timetables. It is designed to maximise resource efficiency and reduce environmental impacts using recycled and 'green' building materials;</p> <ul style="list-style-type: none"> - Recycling and re-using on-site materials & other resources where possible; - Adopting a flexible design to allow for future changes in use and layout; - Using electricity from renewable sources; - Maximising energy efficiency in the building; - Providing environmental advice & training to centre users; - Promoting recycling & public transport use; - Transforming a vacant site into a new & valuable community asset; - Sourcing services, materials & goods locally and from social enterprises &/or fair-trade organisations e.g. locally sourced timber; office, cleaning supplies

	<p>and catering services.</p> <p>The new enterprise 'hub' will be a new capital asset on the islands, accessible to all and managed by the community, the delivery of training and support services to help increase skills and opportunities for people. Increased job opportunities for the most disadvantaged individuals including those with disabilities, long-term unemployed and serving community orders. New employment opportunities directly in the centre will help increase the local skill pool with follow-on benefits for local businesses and hence the local economy. Similar benefits will accrue from the support for new social enterprise start-ups.</p> <p>It will increase economic sector development in order to help increase the growth and output of local enterprises. Improve access to Education and vocational training by providing locally based, accessible training and learning resources and provide employment for local people in particular for those most disadvantaged.</p> <p>The new charity shop along with providing volunteering and employment opportunities it will increase re-cycling of household waste leading to greater diversion from landfill.</p>
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Equal Opportunities

Equality and the Budget

In October 2014, the Scottish Government published the sixth annual Equality Statement alongside the Scottish Draft Budget 2015-2016. It provides an equality context for the budget and outlines the evaluation of the equality impacts of proposed spending plans.

The Equality Budget Statement evaluates the impacts across each portfolio, identifying particular areas for focus or concern to report on in 2015 to ensure that progress is monitored and effectively measured.

The statement highlighted a number of key opportunities for long-term consideration and improvement:

Improved guidance and dialogue: EBS guidance continues to be refreshed and improved. In addition, this year's EBS contains a series of short chapters covering strategic themes identified through discussions with EBAG and consistent with areas of inquiry raised by last year's budget scrutiny:

- Devolved Taxes
- Welfare Reform
- Modern Apprenticeships
- Human Rights and the Budget

To inform the preparation of these chapters, EBAG hosted discussions with relevant policy teams and analysts to share insight about the kinds of equality consideration that might be taken into account to help create better outcomes through policy design and budget decisions.

Continuous improvement: Each portfolio has identified key areas of focus or concern to report on next year to ensure effective use of the assessments undertaken in the year. This year the EBS

also reflects budget decision making in two new Cabinet portfolios: Training, Youth and Women's Employment and Commonwealth Games, Sport, Equalities and Pensioners' Rights.

Equality Evidence: The Equality Evidence Finder has continued to be updated with new evidence from the 2011 Census and other sources. New equality analysis from the census, covering a number of protected characteristics across policy areas, will be released later in October 2014 helping further to fill gaps in the equality evidence base.

Public Sector Equality Duty

In December 2013, the Scottish Government published proposals to enable the better performance of the Public Sector Equality Duty, as required under the Equality Act 2010³.

The commitment by Scottish Ministers' to improve the quality of equality outcomes and the continued development of a robust and wide equalities evidence base underpins the statement, with the following themes for activity identified:

- Setting and reporting on equality outcomes;
- Practice sharing and knowledge transfer;
- Reporting on pay gaps and occupational segregation;
- Improved national and local data availability.

Occupational Segregation

The Scottish Government's Occupational Segregation Cross-Directorate Working Group (reconvened April 2013), continued to meet throughout 2014 and act as the main vehicle for taking forward work to tackle gender stereotyping and occupational segregation - and to implement the relevant recommendations of the Women's Employment Summit and the Royal Society of Edinburgh's Tapping All Our Talents report.

The group is chaired by the Head of the Scottish Government's Equality Unit and has a core membership of Government officials and representatives of Close the Gap, the Scottish Resource Centre for Women in Science, Engineering and Technology, Men In Childcare and the STUC; but will invite other members as required depending on the policy areas being considered. This is likely to include officials from other areas of the Scottish Government and from delivery agencies as appropriate e.g. Scottish Enterprise, Highlands and Islands Enterprise and Skills Development Scotland.

The Group reports directly to the Strategic Group for Women and Work, chaired by the Minister for Youth Employment, which has a remit to agree:

- the range of actions and recommendations from the Women's Employment Summit;
- priorities across each commission and the timescales for action and by whom;
- content of Ministerial reports to Parliament on progress.

³ <http://www.scotland.gov.uk/Resource0044/00440901.pdf>

Equal Opportunities	
Project Applicant	SNH - Scottish Natural Heritage
Project Reference	H&I/ERDF/2013/9/2/0060
Project Title	Beinn Eighe - Gateway to Wild Wester Ross
Grant Award	£ 148,500 on Eurosys £148,500 grant requested
Project Description	<p>The upgrading of the interpretation at the Beinn Eighe Visitor Centre and its trails to provide an enhanced visitor experience with greater year round opportunities. The current visitor centre had been operational since the 1970's and interpretative displays have evolved and changed during that time. Good practice in interpretation requires these periodic changes, in order to continue to attract visitors and successfully impart key messages.</p> <p>New state of the art interpretation, live wildlife cameras and exhibits will provide an engaging, up to date experience, which will enhance understanding of the nature of Beinn Eighe and Wester Ross. The upgrades to the visitor centre and trails will have the following key outcomes</p> <ul style="list-style-type: none"> - An enhanced visitor experience - Increased visitor numbers - Better year round visitor provision
Addressing Horizontal Themes	<p>The upgrades will attract increased visitor numbers to the reserve and centre and this will have a direct benefit to a number of economic enterprises in the area, such as hotels, bed and breakfasts, shops, restaurants, wildlife boat operators, and walking guides.</p> <p>The previous re-development in 2001 was notable because all-abilities access was such a key element in the plans, and SNH worked very closely with the Fieldfare Trust to adopt best practice for both physical and intellectual disability. This will continue to be a key element in this project's re-development. The interpretation in the centre will continue to be designed carefully to appeal to a wide age range of visitors, including families with young children. The appropriate use of Gaelic will be embedded within the new interpretation.</p> <p>Each year several people stay on the Reserve working as volunteers – both short term and long term and special needs groups such as Groundwork Bolsover have helped with Reserve tasks like tree nursery work, planting and fencing. SNH also provide work experience for local schools, especially in practical aspects of estate management which can help motivate children who have become disengaged.</p> <p>SNH previously ran a project that used digital photography as a means of engaging people suffering from mental illness or long term brain injury. The re-developed visitor centre provides a fantastic resource for further social inclusion projects like this.</p> <p>The centre was previously awarded a Gold award under the Green Tourism Business Scheme, and SNH continually strive to find ways of making it more sustainable. SNH has a Climate Change Programme and reducing emissions is a key target within that. They also have a corporate target for sustainability to be included in all procurement. With respect to this SNH will ensure that particular attention is placed on ensuring a sustainable approach to use of new materials and disposal of waste materials (e.g. old interpretive display boards). The Visitor Centre also provides a great way of showcasing and demonstrating sustainable buildings and behaviour to the public and therefore is also educational.</p>

Environmental Sustainability

The goal of sustainable development is to enable all people throughout the world to satisfy their basic needs and enjoy a better quality of life without compromising the quality of life of future generations.

The Scottish Government has as its overall purpose to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

For Scotland we are delivering this through our work supporting Scotland's transformation to a low carbon economy.

The threat that climate change poses to the people of Scotland, our quality of life and our environment is clear. For this reason, we will continue to support international efforts to prevent the very real economic and social impacts of climate change on present and future generations, and on the biodiversity within our environment. It is imperative that we act both locally and globally to reduce damaging greenhouse gas emissions by moving to a low carbon economy.

A low carbon Scotland will capitalise on both our natural resources and the talents and skills of our people. It will make better use of our precious natural resources both at home and abroad, reduce our dependence on fossil fuels and provide us with greater resilience to volatile energy and commodity prices.

A low carbon Scotland will reduce the amount of energy people need to use in their homes, schools, workplaces, and public buildings and, in doing so, help to reduce levels of fuel poverty. It will improve our public spaces and improve public health by reducing traffic pollution, increasing active travel and increasing woodland cover, particularly in and around urban areas. Tree planting, peatland restoration and increasingly sustainable land use will also benefit our biodiversity.

Simply put, a low carbon Scotland is a better Scotland and an investment in the future. The Scottish Government has made the transition to a low carbon economy a strategic priority in our Government Economic Strategy.

2014 has focused upon implementing a number of changes brought about in the previous year. The Low Carbon Scotland Behaviours Framework 4, published on 4 March 2013, lays out what the Scottish Government will do to drive and support the move to low carbon living in the lead-up to the first key climate change target in 2020.

Supporting the Framework, Influencing Behaviours – Moving Beyond the Individual: A user guide to the ISM tool⁵ was published on 5 June 2013. Using the latest social science research the new ISM (Individual, Social and Material) tool was developed as a practical tool for policy makers and others to understand influencing people's behaviours.

A number of workshops using the ISM tool are taking place over the summer and we will provide a web update in the autumn, highlighting the progress that we are making.

The Low Carbon Behaviours – Key Data for Scotland⁶ report, published on 4th October 2013, provides trend data, where available, for the Scottish Government's 10 Key Climate Change Behaviours areas. The key areas span home energy, personal transport, food and consumption.

The ISM (Individual, Social and Material) Tool Progress Report⁷, published on 30th October 2013, is a short report highlighting progress to date in disseminating and using the ISM tool

⁴ <http://www.scotland.gov.uk/Publications/2013/03/8172>

⁵ <http://www.scotland.gov.uk/Publications/2013/06/8511>

⁶ <http://www.scotland.gov.uk/Publications/2013/10/3267>

within the Scottish Government and its agencies, as well as other environmental organisations. It provides an update on the workshops that have taken place to date and those that are planned for the future to improve the behavioural aspects of RPP2 policies, spanning transport, housing, waste and farming.

Whilst all ERDF projects are assessed for their contribution towards environmental sustainability, the increasing focus on renewables and low carbon in Scotland has led to an increase in the number of specific projects coming forward. Below are specific project examples:

Environmental Sustainability	
Project Applicant	ALPS- Applecross Landscape Partnership Scheme
Project Reference	H&I/ERDF/2009/4/2/0294 H&I/ERDF/2009/4/2/0081
Project Title	Applecross (Capital & Revenue)
Grant Award	£88,997 & £168,295
Project Description	<p>The Applecross Landscape Partnership Scheme (ALPS), headed by the Applecross Trust aim to conserve the area's rich natural and cultural heritage, make it more accessible to visitors and local people, and thereby create new income and employment opportunities for the residents of this economically-fragile area.</p> <p>A previous survey showed that tourist accommodation occupancy rates stood in Wester Ross at only half full across the year. Research undertaken by ALPS suggested there are various barriers for visitors in relation to accessing the natural and cultural heritage of the area including:</p> <ul style="list-style-type: none"> - lack of suitable infrastructure (paths, signposts) - lack of information - lack of promotion - lack of events to encourage use - no effective "one-stop-shop" heritage website <p>This project has aimed to address barriers:</p> <ul style="list-style-type: none"> • Created new trails - to give visitors and local people to opportunity to enjoy the peninsula's stunning scenery and rich natural and cultural heritage. • Made sites of historic/archaeological interest more accessible: a wide number of sites of historic or archaeological interest have been made more accessible through conservation/consolidation works and interpretation. • The development of ancestral tourism resources: A small burial ground mapping project which will make local family tree research resources accessible onsite and online. • Creation of a round house, upgrading of barns which are being used for events are workshops. <p>New tourism "products" have been created aimed at attracting visitors to Applecross and encouraging them to stay longer and spend more locally.</p>

⁷<http://www.scotland.gov.uk/Topics/Environment/climatechange/scotlands-action/lowcarbon/lowcarbonbehaviours/ismprogressreport>

Addressing Horizontal Themes	<p>Highland Council has identified Applecross as a very fragile area in relation to distance from services, population decline and density. The community's isolation has negative effects, including a lack of long-term employment opportunities. Community consultations previously identified the development of footpaths, the safeguarding and interpretation of heritage sites, and increased understanding of the area's cultural heritage as key issues. This project will provide scope for creating new tourism-related employment while also addressing these specific issues.</p> <p>ALPS overall is focused not only on minimising its negative effects on the environment but on generating positive effects in terms of enhancing habitats and biodiversity, and of raising awareness of the importance of looking after the environment amongst local people and visitors.</p> <p>A holistic approach has been taken by ALPS to safeguard the area's natural and cultural heritage, and undertaking projects based on this heritage to create new tourism products. ALPS has adopted a statement on environmental sustainability and committed to use energy, natural and non-renewable resources, and raw materials efficiently and for this project:</p> <ul style="list-style-type: none"> -Re-using materials from old stone dykes to build new dykes, interpretation panel plinths and wayside structures (particularly relevant to the projects in this application) -Using timber from the woodland plantations due for felling as part of ALPS woodland regeneration schemes in the production of way markers and signage for the proposed new paths (particularly relevant to the footpaths projects in this application. -Using the most resource efficient technologies and media for communicating, maintaining records of documentation and promotion (particularly relevant to this application's digitisation and website projects). <p>The local sourcing of materials will be used to complete the upgrades and in servicing the needs of the visitors who come to Applecross. The use of public transport has and is promoted to visitors coming to the area</p>
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Innovative actions

The Scottish Government is committed to creating a dynamic infrastructure for research and innovation – this will enable Scotland to compete in those industries set to drive the global economy in the years ahead, such as low carbon, life sciences and digital. To achieve this, the Government Economic Strategy has identified fostering a culture of innovation and research and development as a key theme.

<i>Innovative Actions</i>	
Project Applicant	SCVO –Scottish Council for Voluntary Organisations
Project Reference	H&I/ERDF/2014/10/1/0003
Project Title	SCVO Rural Community Enterprise & Innovation
Grant Award	£63,848
Project Description	To promote economic development, competitiveness and new jobs in rural areas through an integrated programme of support for new and developing community-based enterprises. It is aimed at organisations that are taking their first steps into enterprising and income generating activity and is based on evidence of the beneficial impact of tailored support on their development and

	<p>success. This project will seek to assess the training and support needs of client organisations and groups. It will provide a service that will reduce the time taken to develop and start-up enterprising and income-generation activity.</p> <p>There is currently provision that gives help to SME businesses, this project is different as it is aimed at the particular nature and needs of small scale community and third sector organisations who are seeking to develop into community-based enterprises. In the early stages of enterprise development, this understanding is critical to support the evolution of small groups on their first steps into enterprising activity or to help them develop new facets to their existing income generation.</p> <p>(A parallel project has been approved under the LUPS ERDF Programme)</p>
<p>Addressing Horizontal Themes</p>	<p>This project will help rural people in particular and to help enable participation in the programme and overcome the barriers of rural geography, SCVO will take the training to the local areas or provide innovative methods of delivery such as webinars. Further support and training will be tailored to the client's needs. Training materials will be provided in a range of formats and SCVO will develop online training to ensure full access for all. Training, support and resources will be targeted on encouraging and enabling organisations to put in place policies on equal opportunities and environmental sustainability and promote local sourcing of materials and resources. Where possible communication through ICT will be used to reduce paper consumption, save postal and travel costs, however paper correspondence may be used for those that cannot use or have no access to ICT to ensure their inclusion.</p> <p>The project will support the development of new jobs in local community-based enterprises in rural areas minimising the need to travel long distances to work. Access to services in rural areas is in decline. Research has shown that active, resourceful older people can help establish social enterprises to meet their own needs. This project will encourage older people to be both the beneficiaries of, and participants in, rural social enterprises which improve access to essential services, reduce social isolation and utilise their skills.</p> <p>The project will encourage all the participants and organisations to consider their environmental sustainability by communicating new economic opportunities emerging from the transition to a low carbon economy including the benefits of renewable energy, encourage productivity improvement by focusing on energy and resource efficiency and sustainable development of the rural enterprises.</p>

2.1.7.3 Transnational Activity

CONTRIBUTIONS TO SCOTLAND'S BLUE GROWTH AGENDA

The European Structural Funds has invested in Scotland's marine environment and coastal communities to promote sustainable economic growth within marine industries, and in particular, the marine renewables industry. This has included the WATERS Marine Energy R&D Fund, a collaborative venture between Scottish Enterprise, Scottish Government Renewables division

and Highlands & Islands Enterprise. This fund has enabled Scottish marine technology developers to keep ahead of the game and accelerate the commercial development of existing technologies, reduce capital and operational costs, and develop, demonstrate and verify new devices and systems.

Established in 2003, The European Marine Energy Centre (EMEC) is the first and only centre of its kind in the world to provide developers of both wave and tidal energy converters – technologies that generate electricity by harnessing the power of waves and tidal streams – with purpose-built, accredited open-sea testing facilities. Its base in Orkney is ideal, with excellent oceanic wave regime, strong tidal currents, grid connection, sheltered harbour facilities and the renewable, maritime and environmental expertise that exists within the local community. European Structural Funds has supported EMEC by investing in new and enhanced facilities like the Stromness Marine Renewables Service Base, Orkney Marine Renewables Infrastructure Hatston, and Lyness Marine Renewables Facility.

Contributions towards the blue growth agenda have been complemented by other marine-related initiatives through the support of wider EU funding instruments, and often in collaboration with partners from other regions of Europe, and beyond.

The oceans represent a vast and largely untapped source of energy in the form of surface waves, fluid flow, salinity gradients, and thermal. The MERIKA (Marine Energy Research Innovation and Knowledge Accelerator) is an ambitious FP7 supported initiative by UHI (University of the Highlands and the Islands) that seeks to establish a marine energy research and innovation hub in the region. Alongside seven European scientific institutions, and in cooperation with three UHI partners, the project has focussed on building research capacity, upgrading infrastructure, and reinforcing international collaboration with stakeholders from across the marine energy sector. This has resulted in the UHI Faculty of Science, Health and Engineering becoming a reference research and innovation hub for all of Europe on the theme of marine energy, enabling research to be carried out where key resources – wind and waves – are to be found.

The INTERREG Cross Border Cooperation programme contributed to the Sustainable Fuels from Marine Biomass project, BioMara, a joint UK and Irish project that aimed to demonstrate the feasibility and viability of producing third generation biofuels from marine biomass. The science investigated macroalgae (seaweeds) and microalgae (single-celled plants) for their potential to provide sustainable fuel, and in addition, the project studied the environmental, social and economic impacts of using marine biofuel. A key remit of BioMara was to engage with the wider community and stakeholders were kept in touch with research developments through newsletters and meetings to learn how BioMara may help with long-term energy needs, business development or social projects. BioMara had 6 scientific partner institutes, led by the Scottish Association for Marine Science on the West Coast of Scotland.

The Community and Business toolkit for marine renewable Energy Development (MaRET) supported by the INTERREG Northern Periphery Programme has assisted in providing leading-edge knowledge, guidelines and strategies for developing renewable energy resources. North Highland College UHI worked with partners in Ireland to strengthen the ability of communities to successfully build a competitive renewable energy industry, and create a toolkit to guide the development of community infrastructure, government incentives and business and community investment. The ultimate outcomes have been to encourage locally produced renewable energy, economic development of a lasting nature, globally competitive expertise and skills, and innovative technologies and processes that will be in demand around the world.

ASSEMBLE is an FP7 research network of 9 marine research stations in Europe, Israel and Chile, to include the Scottish Association for Marine Science. The project has provided access to a comprehensive set of coastal marine ecosystems, to research vessels, state-of-the-art experimental facilities and a wide variety of marine organisms; either as research visits or by shipment. Networking activities enhanced interoperability both within and outside of the ASSEMBLE network through workshops, and in addition establishing a virtual tool-box and a

common database for marine organisms. Joint research has improved the provision of marine biological and/or ecological models with an emphasis on models for marine genomics.

These, and other marine and maritime partnership projects, have helped us better achieve the integrated management of Scotland's seas. It is through the efforts of collaborative research, exchange of knowledge and experience, and the attainment of new skills and competences that the waters surrounding our nation can offer us new economic growth opportunities, help diversify our maritime industries, strengthen and rejuvenate our coastal communities, and ensure a healthy and sustainable marine environment for the future.

The 2007-13 INTERREG Programmes are supporting projects with Scottish partners that also complement the work of our regional European Structural Fund activities. These include actions to address demographic change and improvement in the health and welfare services that can bring new innovation, business, skills and employment opportunities to communities.

NHS24 are partners in 2 projects funded by the INTERREG IVC Programme:

- Regions and governments are faced with an unsustainable situation with increasing pressure on health and social care resulting from demographic changes. A new generation of innovative, secure, wearable, interactive health solutions will have to be developed in regions for the care of the elderly to help establish a 'personalized healthcare system'. The CASA Network, comprising of 13 participating European regions, has come together to search for joint solutions, access best practices and improve policy for the deployment of assistive living solutions. At the end of this 3-year project, CASA will enable the participating organisations to mainstream the learning of the exchange of experiences into their regional strategies.
- The societal and economic benefits from wider use of telemedicine are potentially huge. However, despite the benefits and technical maturity of the applications, the use of telemedicine services is still limited in Europe. NHS24, the Scottish Centre for Telehealth and Telecare (SCTT), and partners from 8 other European regions, are establishing a Regional Telemedicine Forum (RTF) to deliver innovation at the regional level. Actions will contribute to ensuring that regional policies respond better to today's economic and social challenges and complement the work of other regional Structural Funds eHealth and telemedicine projects focused on interoperability issues and the testing of new telemedicine pilots.

The Northern Periphery Programme also supports activities under related themes:

- The Recruit and Retain project, led by NHS Western Isles, is a consortium of regional partners from 6 countries looking to find solutions to the persistent problem of difficulties in recruiting and retaining high quality people to work in the public sector in the remote rural areas of Northern Europe. This relates to those people working in education, the social services, the fire and emergency services and local government.
- Strategic investment in urban-rural partnerships has the potential to transform the uptake of telemedicine. The Implementing Transnational Telemedicine Solutions (ITTS) project explores the best ways to achieve this in the northern periphery area. International clinical networks are being set up to promote knowledge exchange, business cases developed to ensure investment achieves goals, and urban-rural partnerships in a triple helix context will aim to deliver innovative health service solutions in the periphery. The project is led by the Centre for Rural Health at the University of Aberdeen.
- In addition, the Remodem project is developing and testing an integrated service package for people with dementia living in remote rural communities which allows and supports them to continue living in their current homes and postpones their placement in institutional care. This will be achieved through partners in

Scotland, Sweden, Norway, the Faeroe Islands, and Greenland introducing modules of support incorporating tested ICT services to improve access to qualified dementia-specific community support and enable more cost-efficient care.

For the next programming period, NHS24 is in discussion with Northern Ireland and Republic of Ireland health authorities about the potential for an eHealth/telehealth trilateral project within the 2014-2020 Cross Border Programme to promote social inclusion and local regeneration.

2.2 Compliance with Community Law

The Scottish Government will continue to ensure full compliance with all aspects of Community Law during the implementation of the ERDF Programme.

2.2.1 Management and Control

2.2.1.1 The Compliance System

The Scottish Government is continuing to use the 4 stage compliance system:

Stage 1: Administrative checks (desk based) under Article 60(b)

Stage 2: On-the-spot checks under Article 60(b)

Stage 3: Analysis of findings from the Compliance checks at Stage 1 and 2

Stage 4: Article 62 work undertaken by the Audit Authority (AA)

The role of the Compliance Team (CT) is to ensure that the Management Control System (MCS) is fully adhered to in the implementation of the Structural Funds programmes in Scotland. The team continues to undertake a detailed programme of Article 60b visits in line with the approved MCS. The team liaises closely with MA staff to ensure that any irregular expenditure is removed from statements of expenditure and that supported actions are implemented in line with their approved applications.

A rigorous claim checking regime has been implemented which ensures that all claims are supported by a full transaction list and are not declared to the Commission until 20% of the expenditure has been checked back to source documents.

In addition, during the project selection and approval process potential projects are scrutinised to ensure that they comply with the eligibility rules.

Compliance and Monitoring 2014

Following revisions of the MCS in 2013 no further updates were required in 2014.

The Compliance Monitoring Group

The remit of the CMG is to consider analysis of the results of desk-based verification checks and Article 60(b) on-the-spot visits to projects and to identify problems that recur across projects. In doing this work, the CMG will have regard to the results of audit work carried out from time to time by DG Regio, DG Emploi, the ECA and Audit Scotland, as well as to the results of Article 62(b) checks made by the Audit Authority and checks made by the Certification Authority. During the course of 2014 the CMG met 3 times, over this period the group has discussed and acted upon:

- Progress on 20% verification checks
- Progress on Article 60(b) on-the-spot checks
- Progress on Article 62(b) visits

- Analysis of the findings from the verification checks, Article 60(b) checks and Article 62(b) audits. Discussions to identify any trends or systemic weaknesses. This information is used to develop National Rules and Q&A documents
- Proposed changes to the MCS document
- Community Planning Partnerships
- Progress towards N+2
- Other CA issues

2.2.1.2 Article 60b Checks

During 2014 the Scottish Government initiated 17 Article 60(b) ERDF visits with 16 of these being completed. These are detailed in the table below. All follow-up action was noted within the Article 60b form completed by the compliance team following the on-site audit, wash-up meeting and follow-up work. Just over £7.9 million was verified, 35% of expenditure declared at the time of the visits. Of this only 0.02% was found to be ineligible. There were no systemic errors found during these visits.

Project Reference	Sponsor	Project title
H&I/ERDF/2012/8/3/0022	West Highland College	Portree Extension & Enterprise Facility
H&I/ERDF/2009/4/2/0100	Comhairle nan Eilean Siar	Hebridean Archiving
H&I/ERDF/2008/3/3/0290	Comhairle nan Eilean Siar	Roads to Communities: Doune Carloway to Kirivik Improvement
H&I/ERDF/2008/3/1/0321	Comhairle nan Eilean Siar	Creative Industries and Media Centre - Stornoway
H&I/ERDF/2012/6/3/0026	Comhairle nan Eilean Siar	Outer Hebrides CPP: An Cotan
H&I/ERDF/2009/4/2/0090	Moray Council	Glenlivet Mountain Bike Trails
H&I/ERDF/2009/4/1/0088	Sealladh n Beinne Moire	Loch Carnan Community Wind Farm
H&I/ERDF/2011/3/3/0024	Orkney Islands Council	Town Heritage Initiative - Commercial Hotel Restoration
H&I/ERDF/2009/4/2/0084	Orkney Islands Council	The Orkney Theatre
H&I/ERDF/2009/4/2/0107	Orkney College	Marine & Environmental Archaeology in the Highlands & Islands
H&I/ERDF/2013/5/3/0006	Hjaltland Housing Association	Low Carbon Shetland - Energy Efficiency
H&I/ERDF/2013/9/1/0089	Lerwick Port Authority	Rova Head Laydown Sites
H&I/ERDF/2012/4/2/0025	Isle of Luing Community Trust	AIC Project
H&I/ERDF/200/2/1/0039	Mull & Iona Community Trust	A Community Enterprise Centre for Mull & Iona
H&I/ERDF/2008/2/3/0035	The Hebridean Trust	Regenerating Hynish
H&I/ERDF/2009/3/1/0005	The Scottish Government	The Harris Tweed Investment Fund
H&I/ERDF/2012/6/1/0012	Northlands Creative Glass	Northland Creative Glass Development Project

2.2.1.3 Irregularities

For the period, 1 January – 31 December 2014, there were 121 irregularity records logged on Eurosyst totalling £2,099,311.84 (€2,491,698.16) irregular expenditure. Of these, 42 are non-reportable, totalling £745,765.90 (€874,503.79), as they were identified before being included in a Statement of Expenditure to the Commission. Of the remaining 79 records, 16 irregularities, totalling £30,566.99 (€35,788.73) have been recovered and 63 irregularities, totalling £1,322,978.95 (€1,581,405.64) are pending repayment of grant to the Scottish Government from the final beneficiaries. All irregularities to be recorded on the Anti Fraud Information System (AFIS) are with the Managing Authority to process.

H&I ERDF	Number	Expenditure	Expenditure
Non Reportable	42	£745,765.90	€874,503.79
Recovered	16	£30,566.99	€35,788.73
Pending Recovery	63	£1,322,978.95	€1,581,405.64
Total	121	£2,099,311.84	€2,491,698.16

Audit Authority View of Programme

System Audits

The Audit Authority (AA) submitted the 2014 Annual Control Report (ACR) and Opinion to the Commission via SFC2007 on 29 December 2014. The content of the ACR is currently under discussion.

From a systems audit perspective it is clear that the MA control framework is operating effectively and the AA was able to provide Category 1 and 2 assurances in each of the audit reviews it carried out in 2014. A summary list is below.

The Audit Strategy for 2014 included details of the following systems audits:

Certifying Authority: Systems for Ensuring the Accuracy of Statements of Expenditure and Grant Draw Downs (Galileo Reference 009/031)

Managing and Certifying Authorities: Eurosyst (Galileo Reference 009/027)

Managing and Certifying Authorities: Compliance with Article 60 of Council Regulation (EC) No. 1083/2006 (Galileo Reference 009/028)

Managing Authority: Systems Claims Checking and Processing and Monitoring Financial Progress (Galileo Reference 009/029)

Managing Authority: Effectiveness of Systems for Ensuring the SDBs Comply with Outcome Agreements (Galileo Reference 009/030)

Scope

The audit review covered:

- Operational Framework reflects the regulatory requirements set by the European Commission;
- CA has access to; receive; and maintain appropriate records;
- Appropriate compliance with Management Control system (MCS) guidance;
- Certification and Draw Down from the Commission is in accordance with EU requirements and the MCS; and
- Amounts recoverable and recoveries

Assurance and Key Findings

The AA provided reasonable assurance (EC category 2) as any errors and omissions relate to the inexperience of new CA staff and audit testing identified only minor errors in figures reported to the Commission.

The MCS sets out clearly the need for documented responsibilities, delegations, agreements and reporting requirements, and has, embedded detailed desk instructions for the CA. Audit testing revealed that the existing desk instructions, although adequate require an element of CA operational knowledge and

made have been notified to the Commission and accounted for in the Statement of Expenditure.

should be more detailed for those with no previous CA knowledge.

We noted that the CA have appropriate audit trails including various control spread sheets, completed template report forms and regular attendance at appropriate meetings demonstrate that the CA is monitoring and reviewing the outcome of all audits. However, the CA have not been fully compliant with the requirements of the MCS this year, due mainly to staffing changes. We found that the required financial reconciliations had not been completed in accordance with guidance and it was also noted that the completed template reports, provided by the MA, failed to demonstrate that they had been reviewed by the CA. Furthermore not all AA verification certificates had been completed.

The CA is completing appropriate returns in respect of expenditure including recoveries

Managing and Certifying Authorities: Eurosys

Scope

The scope of the audit covered a review of the:

Clear definition, allocation and separation of functions between and within the managing authority/intermediate body/ies;
Adequate audit trails in place;
Reliable accounting, monitoring and financial reporting systems in computerised form;
Clear definition, allocation and separation of functions between and within the certifying authority/intermediate body/ies; and
Adequate audit trail and computerised system.

Assurance and Key Findings

The AA concluded that some deficiencies were found in the operation of the Eurosys systems which were counter balanced by "off line" checks" and provided reasonable assurance (EC Category 2).

Clear definition, allocation and separation of functions is clearly documented in the MCS and the systems requirements for Eurosys.

Eurosys itself does not provide an adequate audit trail, however, when this is combined with information held in the SG electronic data management system (e-RDM), hard copy documents, and the SG general ledger (SEAS) then an adequate audit trail exists. One exception to this is the ability to verify a complete record of systems issues and upgrades and the resulting implementation dates of system changes.

A lack of consistency in data input, changes to data input methods, a lack of linkages between payments and irregularities, and system anomalies detract from overall reliance on Eurosys to provide reliable accounting, monitoring and financial reporting information. ESFD do however, have clearly retained documentation and various off line controls, hence there are checks and balances in place to facilitate management control of the programme.

Managing and Certifying Authorities: Compliance with Article 60 of Council Regulation (EC) No. 1083/2006

Scope

The scope of the audit covered a review to

Verify that the appropriate management verifications are being performed in accordance with the Regulation requirements; and

To ensure that reliable accounting, monitoring and financial reporting systems are maintained in computerised form

Assurance and Key Findings

In general the AA found controls to be good and provided substantial assurance (EC Category 1).

ESFD have in place detailed procedures, including templates and checklists which facilitate the implementation of adequate management verifications. Within the MCS and associated Desk Instructions, ESFD have clearly documented the sampling methodology implemented for both Article 60 Admin checks and On the Spot verifications. Appropriate documentation is retained on both e-RDM and Eurosyst which provides a full audit trail of management verifications and any subsequent follow-up processes.

To facilitate the management of the Structural Funds, ESFD utilise Eurosyst (Management Information System); SEAS (Scottish Government Accounting System); and e-RDM (Scottish Government Electronic Records Management System). The adequacy of Eurosyst has been subject to audit in greater detail and reported in the Eurosyst Report 2014/2015.

Managing Authority: Systems Claims Checking and Processing and Monitoring Financial Progress

Scope

The AA's remit was to:

- To ensure clear definition, allocation and separation of functions;
- Confirm management verifications are operating effectively;
- Verify that ESFD operate reliable accounting, monitoring and financial reporting systems in computerised form; and
- Ensure that an adequate audit trail is embedded in the process.

Assurance and Key Findings

While reported data required a degree of manipulation to present the information in the required format, in general the AA found controls to be good and provided reasonable assurance (EC Category 2).

While the Scottish Government no longer use intermediate bodies in the management of ESF, functions are clearly defined, allocated and subject to separation of duties within the MCS.

The MA have in place documented procedures and appropriate checklists which should detect any material misstatements. While some inconsistencies within the dates of claims were identified we confirmed that all administrative verifications were completed before certification. Evidence was on file to confirm that administrative verifications encompassed both

the claim and the supporting documentation. However, errors and omissions in recording these checks were identified. It was noted that the documented guidance in place included the requirements placed on the MA by the CA in relation to the verifications performed.

Reliable accounting, monitoring and financial reporting systems in computerised form has been subject to audit in greater detail and reported in the Eurosyst Report 2014/2015.

Accounting and monitoring information is available at an operational, managerial and Commission level. However, it is noted that a degree of electronic and manual manipulation of Eurosyst data is required to provide effective reports in some instances. Documentation is retained of all checks and verification performed by the MA. This includes confirmation that beneficiaries maintain either a separate accounting system or an adequate accounting code for all transactions relating to the assistance. The use of electronic systems and electronic copies of documentation ensures that the MA comply with the requirements of Article 90 of Regulation 1083/2006, ie regarding availability of documents.

Managing Authority: Effectiveness of Systems for Ensuring the SDBs Comply with Outcome Agreements

Scope

The scope of the audit covered a review to ensure:

- Operational Frameworks between MA and SDBs reflects the MCS requirements approved by the European Commission;
- MA have effective procedures to ensure robust selection decision making;
- MA have effective procedures in place to inform, guide and support beneficiaries;
- MA have effective monitoring and reporting procedures in place; and
- Adequate audit trails are maintained and available.

Assurance and Key Findings

The AA provided a reasonable assurance (EC Category 2) . This opinion is influenced by the fact that the individual projects, which form part of the Outcome Agreements (OAs), are subject to the same level of monitoring of progress and outcomes as all the other projects. This has been confirmed and reported on in previous audit work from current and previous years.

The MCS sets out details for the use of SDBs. It states that the SDB projects are subject to the same compliance arrangements as all other projects, and in addition, the delivery of these projects will be governed by an OA. There is, however, no apparent requirement within the Regulations which necessitates the use of OAs

The MCS sets out that the OAs will:-

- be for a three year period
- include a description of the internal procedure used by each organisation.
- At the start of each three year period be reviewed by the PMC who will make recommendations to Ministers.
- Be formally reviewed on an annual basis by the MA and PMC for financial and outcome performance.
- Have the MA commission an evaluation of the performance towards the end of the first OA and these will form the basis for decisions on any subsequent OAs.

The OAs state that quarterly claims should be submitted by the SDBs. Our examination evidenced that this is not being consistently adhered to.

Some of the evidence required was difficult to locate due to inconsistencies in naming conventions and filing practices. Also there is a lack of consistency in the format and requirements of the three OA's.

Audits of Operations – Highlands and islands (H&I) ERDF

There were 14 projects reviewed and there were 2 projects to note.

University of the Highlands and Islands project (H&I/ERDF/2008/1/2/0090) has an error rate of 10.83% due to a contract not being awarded in line with national procurement regulations.

Scottish Enterprise (H&I/ERDF/2010/5/1/0002) has an error rate of 12.48% due to lack of timesheets for staff not employed 100% on the project.

We are satisfied that the work undertaken on this programme has shown generally there are no major issues or themes across the projects. There is one procurement issue and one staff cost issue of note above which represented 77% of the ineligible expenditure. The statistical error rate is 1.25% and it is 3.71% when combined with H&I ESF.

2.3 Competition Policy and State Aids

European State Aid regulations are considered at the application stage of European Structural Fund projects and throughout the project as it is a part of the compliance procedures for the European programmes.

2.4 Public Contracts

All applicants are required to read and accept the Terms of Conditions contained within the Compliance and Declaration section of the application form. This requires certification prior to any offer of grant being issued and this includes confirmation that the project is complying with public procurement legislation.

2.5 Significant Problems Encountered and Measures Taken

Previous AIRs have noted issues surrounding the commitment levels within the ERDF Programme, further project approvals have increased the commitment levels and during 2013 and 2014 degree of over profiling has been achieved, anticipated underspends and re-profiling within existing projects are being monitored and the Managing Authority will continue to work with project sponsors to track the projected outturn of the programme.

Amendments to the ERDF Operational Programme were progressed and agreed in 2013. This reflected a shift towards a more strategic approach to delivery and increased the proportion of funding in Priority 1. This has recognised the local and community benefit that can be achieved through delivery of more targeted and strategic interventions supporting coordinated local development and providing catalytic investments rather than a number of individual projects, as we have more traditionally seen within Priority 3. This has been particularly effective in maintaining activity in these areas as the position surrounding public and third sector funding continues to prove challenging.

The Managing Authority will continue to work closely with project Sponsors to ensure that commitment levels are maintained and identify projects at risk of underspend and decommitment. Work is on-going with sponsors to ensure that options will exist to absorb any underspends that would impact on the Programme achieving full commitment at closure.

2.6 Changes in the Context of the Operational Programme Implementation

2.6.1 Socio-Economic Context

Growth in output was particularly strong during the first half of 2014, weakening slightly in the latter part of the year in the face of significant headwinds. Comparing the most recent quarter (2014 Q4) with the corresponding quarter of 2013, GDP grew by 3.3 per cent in Scotland and 2.8 per cent in the UK.

The unemployment rate in Scotland declined during 2014, falling from 6.6 per cent in Dec - Jan 2014 to 6.0 per cent in Dec - Jan 2015. This is slightly higher than the unemployment rate in the UK as a whole (5.6 per cent).

The Highlands and Islands region accounts for 8.8 per cent of Scotland's population. The region's socio-economic context differs from Scotland as a whole in a number of ways. The population is older, with 21 per cent of the population aged 65 or above, compared with 17 per cent in Scotland overall. GVA per capita in the region in 2013 was 18 per cent lower than in Scotland.

The Highlands and Islands Region

Unemployment

Unemployment in the Highlands and Islands in the year to December 2014 was 11,500, representing 4.7 per cent of the economically active population aged 16+. The unemployment rate for Scotland as a whole was 6.2 per cent – substantially higher than for the Highlands and Islands.

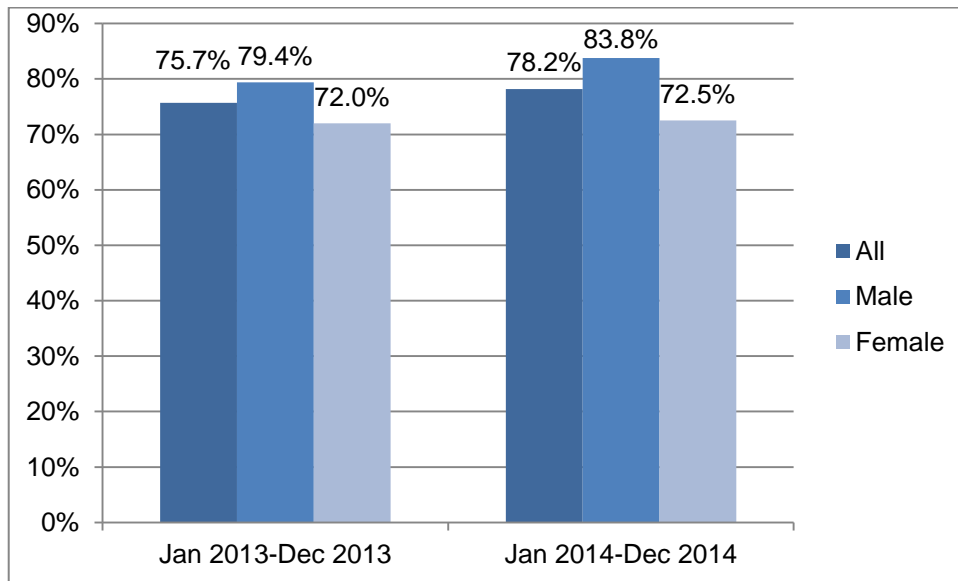
The unemployment rate for men and women was similar, at 4.9 per cent and 4.5 per cent respectively.

The youth unemployment rate (ages 16-24) in the Highlands and Islands at 12.4 per cent in 2014 decreased compared to the previous year (14.8 per cent) and was lower than the rate in Scotland as a whole (17.1 per cent).

Employment Rate

The employment rate for males living in the Highlands and Islands in 2014 was 83.8 per cent, and the rate for females was 72.5 per cent. The region's male employment rate is 7.4 percentage points higher than the corresponding Scottish rate, while the region's female employment rate is 3.6 percentage points higher than the Scottish rate.

Figure 1: Employment rate by gender
Percentage of population aged 16-64, Highlands and Islands



Source: Annual Population Survey

Self-Employment

In the year to December 2014, 15.4 per cent of those in employment (aged 16+) living in the Highlands and Islands were self-employed. People in the Highlands and Islands are more likely to be self-employed than those living in Scotland as a whole (11.8 per cent) and men are more likely to be self-employed than women both in the Highlands and Islands and Scotland as a whole.

2.6.2 Policy Context

Scotland's Economic Strategy

*Scotland's Economic Strategy*⁸ – published in March 2015 – sets out how the Scottish Government will continue to make full use of the levers currently devolved to the Scottish Parliament in order to deliver on the Purpose established in 2007 to:

“...focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.”

Scotland's Economic Strategy provides an over-arching framework for how the Scottish Government will create a more productive, cohesive and fairer Scotland. The Strategy sets out how Scotland will go beyond pre-recession levels of economic performance, by tackling the underlying challenges in the economy and labour market, increasing the competitiveness and sustainability of the Scottish economy, and tackling inequality in a way that ensures the benefits of economic success are shared by all.

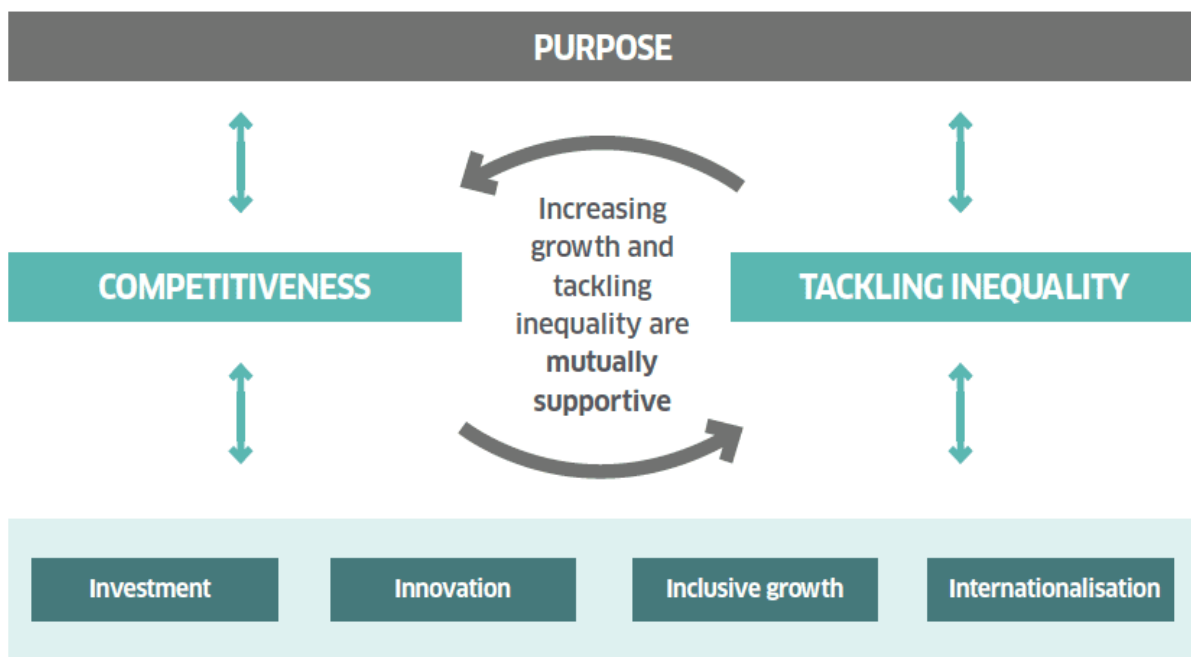
The approach set out in *Scotland's Economic Strategy* is focused on two mutually supportive goals for achieving our Purpose; **increasing competitiveness** and **tackling inequality**. Scotland's Economic Framework is outlined in Figure 1.

⁸ <http://www.gov.scot/Resource/0047/00472389.pdf>

Increasing competitiveness is essential for improving Scotland’s long-term economic performance. This involves raising the productivity of Scotland’s workforce; improving Scotland’s infrastructure and the ability of people to participate in the labour market; and businesses growing and expanding both at home and overseas.

As well as being important in itself, **tackling inequality** is vital to creating the conditions to deliver economic growth that is sustainable over the long term and is shared by all. Recent international evidence from the OECD and the IMF suggests that higher inequality can have a negative impact on growth and economic resilience.

Figure 1: Scotland’s Economic Framework



Promoting competitiveness and addressing inequality are important interdependent ambitions. These goals are underpinned by four priority areas which the Scottish Government will focus on to deliver sustainable economic growth:

- **Investing** in our people and infrastructure in a sustainable way;
- Fostering a culture of **innovation** and research and development;
- Promoting **inclusive growth** and creating opportunity through a fair and inclusive jobs market and regional cohesion;
- Promoting Scotland on the **international** stage to boost our trade and investment, influence and networks.

To ensure that the benefits of economic success are shared across all of Scotland, *Scotland’s Economic Strategy* recognises that the public sector, businesses, trade unions, the third sector and communities must work together in partnership to achieve the goals of boosting competitiveness and tackling inequality. Scotland’s 2014-15 Programme for Government therefore focuses on the following priorities:

- Creating more, better paid jobs in a strong sustainable economy

- Building a fairer Scotland and tackling inequality
- Passing power to people and communities

Spending Review & Budget Bill

The Spending Review and Budget Bill identify how the Scottish Government is prioritising spending to accelerate the recovery and support the vision set out in Scotland's Economic Strategy. Alongside the focus on economic growth, this includes tackling any barriers that people, particularly young people, face in realising their economic potential.

Scottish and UK National Reform Programmes

Through the National Reform Programmes (NRPs), EU Member States report each year on their own structural reform programmes and the progress being made towards the ambitions of Europe 2020 – the European Union's strategy for delivering smart, sustainable and inclusive growth across Europe. As part of this, the Scottish Government fully contributes to the development of the UK Government's National Reform Programme. However, to help provide the European Commission with more detail on the unique characteristics of Scotland and the distinct approach to Europe 2020 ambitions we are taking forward within the UK, a Scottish National Reform Programme (SNRP) is produced annually. The SNRP provides a valuable opportunity to highlight particular areas where actions being taken forward in Scotland are making an important contribution to delivering the priorities of Europe 2020.

The SNRP demonstrates Scotland's commitment to engage positively with EU institutions to fully represent Scottish interests and highlight particular Scottish strengths to European partners. The report sets out the actions that Scottish Government is undertaking in support of the delivery of the five EU headline targets set out in Europe 2020 – covering Employment; Innovation and R&D; Climate Change; Education; and Social Inclusion and Poverty Reduction. European Funds, including Structural Funds continue to play a crucial role in unlocking development and stimulating sustainable economic growth in Scotland.

The Scottish Government is strongly supportive of the ambitions and priorities of Europe 2020. There is a significant degree of commonality between Europe 2020 and *Scotland's Economic Strategy*. Central to both strategies is a focus on reducing inequalities and raising competitiveness to deliver economic growth that is smart, sustainable and inclusive.

In June 2014, the European Commission provided the UK with a set of Country Specific Recommendations (CSRs). In summary, these recommendations focus on:

- Reducing the budget deficit in a sustainable manner while pursuing a differentiated growth-friendly approach to fiscal tightening by prioritising capital expenditure;
- Continuing efforts to increase the supply of housing, alongside considering reforms to the taxation of land and property to alleviate distortions in the housing market;
- Improving skills that meet employer needs, ensuring employer engagement by placing emphasis on addressing skills mismatches through more advanced and higher level skills provision and furthering apprenticeship offers. In addition, reducing the number of young people with low basic skills;
- Continuing efforts to reduce child poverty in low-income households and improve the availability of affordable quality childcare;
- Continuing efforts to improve the availability of non-bank finance to SMEs; and
- Facilitating an increase in network infrastructure investment – with a particular focus on increasing the predictability of the planning process and the clear presentation of funding commitments.

The Scottish National Reform Programme outlines where the Scottish Government is taking action, within the powers available to it, against the identified priorities.

The 2015 Scottish National Reform Programme⁹ highlights the important role of European Structural Funds in supporting smart, sustainable, and inclusive growth in Scotland. The SNRP provides case studies from projects funded by the ERDF and ESF Programmes.

2.7 Substantial Modifications under Article 57 of Regulation (EC) No. 1083/2006

There have been no substantial modifications under Article 57 during 2014.

2.8 Complementarity with Other Instruments

The formal authorisation enabling the Scottish Government to operate and manage Structural Fund Programmes derives from the Scotland Act 1998 which devolves authority to the Scottish Parliament and Administration. For all ESF and ERDF programmes the functions of the Member States are undertaken by the European Structural Funds Division, placed within the Scottish Government. The Scottish Government has primary responsibility for the implementation of the funds and for their sound financial management.

Implementation

The Head of the European Structural Funds Division is responsible for the Management and Control Systems and the functions detailed within it. The individual sections are maintained by the appropriate bodies i.e. Certifying Authority and the Managing Authority. The Business Management and Support Team are responsible for the sections relating to the computer systems employed by the Division.

Whilst the MA, CA and MS teams operate independently, their activities are coordinated by the Steering Group.

The Steering Group

The Steering Group for the European Structural Funds Division meets to discuss, plan and agree areas relating policy and delivery, internal and external resources, the performance management of the Intermediate Administration Bodies contracts and other matters as necessary.

Managing Authority

The Managing Authority within the Scottish Government is responsible for the efficiency and probity of the management and implementation of the programmes. The European Structural Funds Division within the Scottish Government is responsible for discharging or overseeing all the obligations and verifications required by the Commissions Regulations which pertain to the delivery of the Structural Funds Programmes for both Lowlands and Uplands Scotland ESF and ERDF and for the Highlands and Islands ESF and ERDF.

Certifying Authority

The Certifying Authority is responsible for submitting certified statements of expenditure and applications for payment to the Commission. The CA also maintain accounting records in a computerised form of the expenditure declared to the Commission and keep accounts of all amounts recoverable and withdrawn from the Operational Programmes.

⁹ <http://www.gov.scot/Resource/0047/00476579.pdf>

2.8.1 European Social Fund

The overall framework for implementing the Highlands and Islands Scotland ERDF Programme is the same as that for ESF therefore providing consistency in the application of management controls and delivery. These include:

- a single Monitoring Committee with members appointed to take decisions and make recommendations on both funds;
- Monitoring Committee meetings with agenda items which cover both funds;
- the Managing Authority for both funds are co-located within the same Scottish Government Division;
- common training between Managing Authority staff; and
- a common set of verification and compliance arrangements.

A clear distinction is made between the types of activity that will be supported through the two Programmes as set out in the approved Operational Programmes. Whilst it is important that the funds should not support the same activity, the promotion of the value of integration is still required and actively pursued.

2.8.2 European Investment Bank

The EIB, although providing Scotland with assistance in the form of support to transport, infrastructure and environmental projects does not duplicate the work of Structural Funds in Scotland. The organisations to which these loans have been granted tend not to be in receipt of other EU funding. Overall, the Scottish Government remains committed to maintaining a continuing dialogue with the EIB and to exploring the possibility of EIB supported projects. The EIB act as the Holding Fund Manager for the JESSICA initiative, which operates in the Lowlands and Uplands Scotland Programme area.

However, these funds do not contribute towards the Highlands and Islands area.

The Scottish Government's European Structural Funds Division will continue to give careful consideration to all proposed investment in Scotland by the EIB and ensure co-ordination between funds where appropriate.

2.8.3 European Agricultural Fund for Rural Development

The Scottish Rural Development Programme implements relevant measures in Regulation 1698/2005. These comprise those related to Axis 1, improving the competitiveness of the agricultural and forestry sectors, Axis 2 improving the environment and the countryside, Axis 3 the quality of life in rural areas and diversification of the rural economy and axis 4 Leader. It takes full account of other Community support instruments, setting out the demarcation criteria for the operations supported by the EAFRD and those supported by other Community support instruments. The Scotland Rural Development Programme runs from 2007 to 2013. The operational programme was approved in early 2008. To ensure co-ordination at the level of approved projects, a member of the Agriculture, Food and Rural Communities Division attends the Highlands and Islands Programme Monitoring Committee.

2.8.4 European Fisheries Fund

The European Commission published the regulation for the European Fisheries Fund (EFF) in July 2006. The EFF succeeds FIGF in all Member States and operates over the 2007 – 2013 programming period (2007-2013). In consultation with stakeholders and other UK Administrations, the Scottish Government developed an Operational Programme for the EFF and the new schemes were launched during 2008. Again, the Managing Authorities for both Programmes will continue to liaise closely to avoid overlap and secure complementarity.

2.8.5 Co-ordination between LUPS and Highlands & Islands Programmes

During the year liaison and joint working agreements between the two programmes took place within the following fields:

- systems review and revisions;
- application processing/appraisal; and,
- Preparations for on the spot verification visits under Article 60b.

During 2014 two projects led by SCVO were approved, both of these are operating on a pan-Scotland basis and the lead contacts and management from both the project team and MA have been working closely to ensure that the projects are delivered effectively in both areas.

2.9 Monitoring Arrangements

In terms of data collection, the EUROSYS system ensures that the necessary data both to monitor eligibility, expenditure and outputs and results, is captured to allow systematic and qualitative monitoring. The Progress Report function, in particular, demands more information on project progress to allow full monitoring at all stages of the project – this report is required to be submitted by project sponsors on a quarterly basis and the system has been developed to ensure that steps are taken if reports are not submitted timeously or with sufficient detail.

This more regular dialogue using the online system, supplemented with regular monitoring visits from the Managing Authority, provides an effective and efficient monitoring framework of which evaluations can gain the benefit.

2.9.1 Programme Monitoring Committee

The management arrangements for the Programme are based on a two tier structure comprising:

- (i) Programme Monitoring Committee, responsible for Monitoring and Reviewing progress of the ERDF and ESF Operational Programmes, for consideration of operational issues and approval of project recommendations; and
- (ii) Advisory Groups, responsible for detailed project appraisal, development of guidance and advice on selection criteria.

The Committee and the Advisory Groups are chaired by an official of the Scottish Government and until 2012 were serviced, under contract, by the Intermediate Administrative Body; since April 2012 they have been serviced by the Managing Authority within the Scottish Government.

In accordance with Article 63 of Council Regulation (EC) No 1083/2006 of 11 July 2006 a single Monitoring Committee was established with responsibility for the ERDF and ESF Operational Programmes.

In order to ensure quality and effectiveness of the Programme within the institutional, legal and financial framework of the Member State the Committee drew up its own:

- (i) Terms of Reference;
- (ii) Rules of Procedure; and
- (iii) Membership Update

Membership of the Committee combines representatives of the key public, educational and voluntary bodies operating within the Programme area together with “social” partners.

Meetings Held

The Monitoring Committee met by written procedure concluding on 23 June 2014, the Committee reviewed programme commitments and projected performance, approved two projects and considered the draft 2013 AIR. The Committee also received an update on Programme implementation.

PMC meetings in 2015 have been programmed for June 2015, to consider draft AIRs, update on plans for closure and to review the project performance and progress towards a final position against finance and targets, and December 2015 where an update on programme delivery as a whole and Programme closure will be the main focus.

Advisory Groups

Three Advisory Groups support the Programme Monitoring Committee. They undertake the technical appraisal of projects in accordance with the approved selection criteria and thereafter make recommendations in respect of projects to the Committee. The Groups are chaired by an official of the Scottish Government and comprise “technical experts” and not organisational or sector representatives. Membership of Advisory Groups was established following an open tendering procedure. Following press and website advertisements in 2007, the Scottish Government appraised candidates and made the appointments. A further request for appointments was made during 2008 due to the departure of some members.

Groups are required to meet in order to deal with the normal flow of applications. An Advisory Group considered two new project applications in May 2014, both were recommended for approval.

2.9.2 Managing Authority Action

The work of the Managing Authority (MA) continued to concentrate on the essential elements for effective implementation of the programmes. The MA was responsible for the assessment and payment of Progress Reports and Financial Claims received through the Eurosyst IT system. The MA is also responsible for the planning and arrangement of Article 60(b) on-the-spot audits of projects, in line with the Monitoring and Compliance System agreed with the Commission. In addition, a number of groups continued to lead the development of both Evaluation and Communication Plans, which the MA was a member of.

2.9.3 On-going Evaluation Activity

Monitoring and Evaluation Group

The purpose of the Monitoring and Evaluation Group is to oversee the Scottish Structural Funds Evaluation Plan 2007-2013, share good practice across Structural Funds Programmes, and assist in building the evidence base for the 2014-2020 programmes in Scotland, learning lessons from the current Programmes through exchange of experience and evaluation.

Given the stage reached in the 2007-13 Programme, it is unlikely that further evaluation work will be undertaken. Attention will now turn to developing and producing the Evaluation Plan for the 2014-2020 Operational Programme.

Ex Ante Evaluation

The ex-ante evaluation provides an external evaluation of the ESIF Programmes which has been submitted with the operational proposals to the European Commission, for consideration when assessing the programmes prior to their adoption (Article 25). Programmes cannot be approved, and therefore cannot distribute any funding, without such an evaluation taking place.

Hall Aitken were appointed in March 2013 to undertake the ex-ante evaluation exercise. The overall aim of the ex-ante evaluation is to help inform the development of the Scottish Government's European Social Fund (ESF) and European Regional Development Fund (ERDF) programmes for 2014-2020 and the Scottish chapter of the Partnership Agreement. The evaluation is an iterative and complex assessment which considers the main features of the Programme, such as the strategic principles, the selected objectives and priorities which follow from it and considers how far they are justified by the baseline review of the Region. It will also comment on targets which have been set, indicators which have been chosen, the likely impacts from the programme and consistency of financial allocations.

During the course of 2013 Hall Aitken have actively evaluated the key subject areas including the contribution to the Europe 2020 strategy, Strategic Environmental Assessment, Equalities Impact Assessment and an assessment of Financial Instruments for both programmes. They have assessed the Scottish Chapter of the Partnership Agreement which has allowed this to be submitted to UK Government for inclusion in the overall Member State Partnership Agreement.

Hall Aitken are currently undertaking the evaluation of the Operational Programmes which was submitted to the European Commission in 2014.

2.9.4 National Performance Reserve

This is not relevant to the Highlands and Islands European Regional Development Fund.

3. IMPLEMENTATION BY PRIORITY

The socio-economic analysis contained in the Operational Programme and updated in Section 2.1 of this Report describes the strengths and opportunities upon which the region can build, including research, and the weaknesses and challenges, deriving from low productivity and scarcity of population which require to be addressed.

In recognising the limited resources available the Programme acknowledges that maximum impact can be best derived from improving the competitiveness of key sectors by investing in:

- renewable energy, including wind, wave, hydrogen and biomass;
- tourism and culture;
- food and drink;
- forestry;
- other energy-related activity; and
- life/health sciences.

Supporting a handful of key drivers of sustainable growth, critical to the region's economic prospects:

- research and training capacity;
- wider research infrastructure;
- sustainable use of natural and cultural assets; and
- investing in community sustainability to aid the distribution of growth across the area.

As a result, €121.862 million has been allocated for 2007-2013 across four Priorities:

1. Enhancing Business Competitiveness, Commercialisation and Innovation (€54.5m);
2. Enhancing Key Drivers of Sustainable Growth (€44.4m);
3. Enhancing Sustainable Growth of Peripheral and Fragile Communities (€19.2m); and
4. Technical Assistance (€3.6m)

Strategic Delivery Bodies (SDB)

University of the Highlands and Islands

By the close of Phase 1, 9 research facilities had been supported through the UHI SDB ERDF project. These were spread across the whole of the UHI area, from Shetland in the north to Dunstaffnage in Argyll. Some 72 e-learning or training facilities were supported, which resulted in 11 RTD projects receiving assistance. Some of these were supporting PhD students research the effects of harvesting tidal energy on neighbouring marine life. 41 jobs have been supported through this project.

Phase 2 is providing financial support to the new UHI Partnership building at Inverness Campus although this experienced some early delays; it is expected that physical works will complete during the summer of 2015.

Highlands and Islands Enterprise

HIE has implemented a number of grant schemes through both their ERDF and ESF SDB awards. Below is a table summarising the range of activities, and geographical split of awards – for both Funds.

	Social Enterprises	Community Renewable Energy	Businesses of Scale	Hi-Grads	Business Innovation Grants	Hi-Links	Creative Industries	Capital Programme
	Projects receiving assistance	Projects receiving assistance	Projects receiving assistance	Projects receiving assistance	Projects receiving assistance	Business Interactions	No. of Businesses Facilitated	No. of Premises
Shetland	2	2	0	8	2	17	8	0
Orkney	13	2	1	10	2	7	5	1
Western Isles	8	8	1	25	0	11	35	0
Moray	9	0	0	16	0	9	27	5
Caithness	15	4	0	17	3	8	22	0
Inner Moray Firth	75	2	3	39	5	38	80	0
Lochaber, Skye & Wester Ross	36	3	1	19	1	10	37	3
Argyll & the Islands	39	10	1	28	6	20	27	9

Community Planning Partnerships (CPPs)

By the end of 2013 some £3.7m of ERDF grant award had been committed to projects that were submitted under the CPP umbrella. These ranged from harbour dredging in Skerries, one of Shetland's most remote islands, to a long distance walking route through the Western Isles to a bunkhouse in the southern tip of Argyll.

Each of the projects supported can be evidenced as playing a key role in supporting the local economy and the community it impacts. For example, the isle of Coll, the most northerly of Argyll's islands, received assistance to build a new community facility, An Cridhe. As well as providing a much needed multi-purpose hall, there are also small offices and a bunkhouse which can be used by both residents and visitors alike. No further approvals under the CPP structure have been approved in 2014.

Targeting

Targeting and the focussing of investment have been fundamental to the successful implementation of the Programme and to achieving the Lisbon targets. The focus for investment in Priorities 1 and 2 has remained key sectors and activities respectively. Geographical targeting, successfully implemented in previous programmes, remains a fundamental component of the appraisal process, and has been applied horizontally across all Priorities. The chart in [Section 2.1.7.1](#) displays the array of awards throughout the various Local Authority areas.

Nevertheless the region is characterised by pockets of severe economic and social disadvantage and whilst the Scottish Index of Multiple Deprivation remains insufficiently sensitive to adequately identify rural disadvantage, a more meaningful measure within the region is the “fragile area” classification applied by Highlands and Island Enterprise. This measure recognises the structural problems resulting from a self-reinforcing combination of remoteness, poor infrastructure and low or low earning levels of economic activity. The table below gives an indication of the weighting of disadvantage. Fragility is most acute in several island communities – Western Isles and Argyll as well as remote parts of the mainland, such as Caithness and Sutherland.

“Fragile Area” Status – Highlands and Islands	
Argyll and the Islands	21.4%
Caithness and Sutherland	14.3%
Eilear Siar	12.9%
Ross and Cromarty	11.6%
Inverness, Nairn, Badenoch & Strathspey	10.4%
Moray	10.1%
Shetland	5.6%
Lochaber	4.8%
Orkney	4.7%
Skye and Lochalsh	4.3%

The emphasis on targeting is more explicit in Priority 3 where eligibility depends on an applicant satisfying at least one of the three sets of criteria which determine fragility – geographic, demographic and economic.

3.1 Information on the Physical and Financial Progress of the Programme

Achievement and Analysis of Progress

3.1.1 Priority 1: Business Competitiveness, Commercialisation and Innovation

3.1.2.1 Progress to date in Implementation and Key Operational Issues

Financial Analysis

During 2014 there were no new approvals under this Priority. The average grant rate remained just over 30% against the Operational Programme average for Priority 1 of 40%. Two additional grant awards supporting development of community based and social enterprises were approved in 2014; this supports the alignment of third sector and community based support with a more strategic approach that is being adopted within Structural Funds in general.

This Priority remains fully committed.

Qualitative Analysis

The objective of this Priority is to:

“To increase the sustainable growth of the Highlands and Islands economy through expanding the number, diversity and value of output of its enterprises, focusing on key sectors.”

Within this Priority there are two strategic elements:

- To develop the culture and competitiveness of enterprises, especially in the fragile and peripheral parts of the region; and
- To develop businesses of scale and achieve success in key sectors by supporting commercialisation of research and innovation.

Progress

In general, projects under ERDF Priority 1 are performing well. There are a small number of exceptions to this and the Managing Authority continue to closely monitor their position. The HIE SDB Project sits within Priority 1 and has the largest proportion of capital expenditure remaining to be claimed; the MA are regularly reviewing this with HIE.

When considering the Scottish Government's vision towards economic recovery, as set out in the Government Economic Strategy, activity funded through Priorities 1 and 2 best reflect key actions for potential contributions to achieving sustainable economic growth throughout the region. This is enhanced through a suite of projects currently funded under the Highlands & Islands European Social Fund, including projects developing the management and leadership capacity of SMEs and Social Enterprises.

Reflecting this alignment the virement of funds from Priority 3 into Priority 1 was agreed in 2013, this continues to be reflected in the MAs has seen the funds targeted under Priority 1 drawn down and progressing towards targets, particularly against business space and advice & support. Support for the renewables sector continues to feature strongly in the suite of successful projects. These increases reflect the shift in level of intervention from large individual awards, to a larger number of small awards. This also reflects the increased risks to SMEs over the past 5 years in terms of investment and expansion.

Throughout 2014, the Scottish Investment Fund continued to be monitored closely. As noted below, no investment to the private sector has been made to date. Whilst the scope of the fund has been extended to be more open and attractive to the private sector, the potential for uptake within the Highlands & Islands region is limited. The Managing Authority have agreed with the sponsor to pursue decommitment of the project and allow the monies to be re-cycled: this will be

taken forward during 2015, to ensure opportunities for private sector interest in the fund are fully explored.

Within the Priority as a whole, performance against targets continues to be good. A small number of indicators are yet to meet their targets, however these largely relate to the lag in outputs being achieved related to completion of capital build projects and realisation of job creation and increase in turnover. Energy efficiency measures continue to feature in projects, however not to the extent originally envisaged. As would be expected, for some types of projects there are delays in the creation of new jobs

Financial Instruments

H&I/ERDF/2009/4/1/0054: H&I Scottish Co-Investment Fund (Scottish Enterprise)

Total project costs: £5,143,829
ERDF grant award: £2,057,532
Public match funding: £3,086,297

This project was awarded £2m ERDF support as part-finance towards the £5m recapitalisation of the Scottish Co-investment Fund within the Highlands and Islands area. The project will run from 2009 to 2015 and will build on the earlier success of the Scottish Co-investment Fund. It is an evergreen Fund in that any return will be used for future re-investment. ERDF is drawn down in tranches of 20% of the total fund value with the next tranche being triggered once 75% of the previous tranche has been invested.

The Fund invests up to £1m in SMEs and in particular, micro and small enterprises (SMEs) with high growth potential. SCF invests on a pari passu basis with SCF partners within a deal ceiling of £10m.

The Fund does not find and negotiate investment deals on its own. It forms contractual partnerships with active business angel syndicates, Venture Capital fund managers and corporate venturers from the private sector. SCF also seeks to attract investors from outwith Scotland (e.g. English, Nordic, American and Italian investors). It is the private sector SCF Partner who finds the investment opportunity and negotiates the deal and offers to invest their equity cash. If the opportunity needs more investment than the private sector partner can provide or if the scale of risk is such that the Partner wishes to syndicate their investment, the partner.

In an early call on the SCF to co-invest alongside it on equal commercial terms. The supply of early stage risk capital is significantly increased as well as the number of active investors.

In 2011 the project identified an opportunity to help address issues arising from, in particular, the global financial recession and the associate impact of withdrawal of the banks from the market. A second equity gap for young SMEs with high growth potential was identified, and confirmed by sources such as the UK Government's Department for Business, Innovation and Skills. The second equity gap is constraining the growth of young SMEs with high growth potential in the Highlands & Islands particularly.

In response, a notification of change was agreed in 2011 to include an extension to the scope of support to address the identified equity gap. As this has influenced how the FEI engages with potential beneficiaries it was felt that the definition 'separate block of finance within a financial institution' was a more accurate description of the revised project

During 2014, the project put forward a further proposal to increase the ERDF grant award and total value. This would increase the project value to £6.5M, and to an extent offsets the lack of uptake from the other FI operating in The Highlands & Islands. The Co-Investment fund is much more appropriate to the scale of business and operations in the region and this is reflected in the level of demand. The MA have agreed the increase in principle and this is expected to be formalised during 2015.

Scottish Investment Bank Loan Fund – HIE Area 2010-2 (Scottish Enterprise)

Total project costs; £5,000,000

ERDF grant award: £2,000,000

Public Match funding: £3,000,000

The aim of this project is to address market imperfection in the supply of investment and growth capital to SMEs, caused by the banks' marked reduction in business lending. The project was awarded £2m in ERDF grant towards creating a loan fund for growing and exporting SMEs which will provide investment and growth capital in the form of secured debt in the range of £250,000 to £2m on a fully commercial basis.

This project complements a £20m project in the LUPS Programme area. The 2 projects combine to provide a national loan fund with a capital value of £55m. Any returns will be reinvested within the respective Programme areas for further investment to address future market imperfection in the supply of risk capital to SMEs in Scotland.

The Loan Fund provides unsecured and mezzanine debt to profitable, viable SMEs which have growth potential and/or export at least 50% of their goods out with Scotland. This has a limited scope within Highlands & Islands and the MA has agreed to decommit the project; this will be progressed formally during 2015.

Flexibility Options

Fund Flexibility has not been used under ERDF Priority 1.

Case Study: New Start Highland Enterprise Centre

Project Title	New Start Highland Enterprise Centre
Reference	H&I/ERDF/2009/4/1/0092
Project Sponsor	New Start Highland
Priority	1
Total Eligible Project Costs	£1,161,893 on Eurosyst £2,012,500 applied for
Structural Fund Grant Required	£464,757 on Eurosyst £805,000 applied for
Intervention Rate Required	40
Area Covered	Highland
Project Description	
<p>New Start Highland (NSH) was formed in 1999 in response to a need by people moving from homelessness requiring a range of support for them to reintegrate with mainstream society. NSH has its roots in social inclusion through a strong belief that everyone should have equality of opportunity. NSH provides a broad range of services to people in need including furniture packs, housing support, employment, training and volunteering opportunities to those furthest from the workforce. To support these services it provides waste management operations for Highland Council by collecting, refurbishing and recycling furniture and other household goods. NSH have outgrown their current premises and are currently having to use in the short-term 40 foot containers to deal with the overflow of donated household goods. This is unsustainable both operationally and financially.</p> <p>This project is the erection of a 2,405m square building with extensive warehousing, additional office space and 3 supported starter units for social enterprise start-ups or second phase growth organisations. This last element has no parallel in the Highlands and will act as an incubator for new community based organisations to move from inception through start-up phase to a point where they are able to move on to larger premises thus releasing the units for new tenants. Throughout an organisation's tenancy of the units NSH will provide mentoring and practical assistance using its extensive experience to facilitate a positive start for fledgling enterprises and therefore reduce the failure rate amongst this group.</p> <p>Following a model successfully developed out with the Highlands, the service centre will house</p>	

incubator units to encourage grass roots entrepreneurs and fledgling businesses, providing them with bespoke accommodation and offering support and hands-on advice from experienced social entrepreneurs. NSH vision is that by encouraging and supporting these social enterprise start-ups, strong, well-managed, successful local companies will develop, employing local people and contributing towards the wealth and stability of their community. It will increase opportunities for people from all backgrounds and circumstances and give them the chance to build positive relationships in all areas of work.

As part of NSH's sustainability and to allow it to move away from grant support, it is proposing to introduce new services providing additional income and employment. The proposals cover carpet reuse and recycling; establishing a small bio-diesel plant to allow NSH's vehicles to be more carbon neutral; the reclamation of building materials, mainly timber; in partnership with another social enterprise, the production of bio mass fuel for use on site and for sale to other bio mass boiler users.

Indicators and Targets

Type	Indicator	Target from Approved Application
Output	Area of business space created	2405(m2)
Result	Number of Social Enterprises supported	4
	Number of new business starts resulting from support	1
	Number of gross jobs created	10

3.1.2 Priority 1: Analysis of Indicators and Targets

Type	Code	Indicator	Unit	Target	Baseline	Achievement								Total	% target met by actual
						2007	2008	2009	2010	2011	2012	2013	2014		
Output	R101	Number of individuals and new enterprises receiving advice/consultancy		800	-	0	17	214	441	291	109	117	109	1,298	162%
Output	R102	Number of enterprises receiving financial support		250	-	0	0	60	70	55	34	0	14	233	93%
Output	R103	Number of enterprises receiving support for e-commerce		150	-	0	15	16	81	34	0	0	0	146	97%
Output	R104	Number of enterprises receiving support for energy-saving and resource-efficiency		350	-	0	0	7	110	109	6	4	2	238	68%
Output	R105	Number of social enterprises receiving support		200	-	0	2	116	122	14	10	1	4	269	135%
Result	R106	Number of new business starts resulting from support		400	-	0	4	6	9	31	22	4	8	84	21%
Result	R107	Number of ecommerce strategies developed		100	-	0	34	76	66	23	0	0	0	199	199%
Result	R108	Number of enterprises implementing environmental audits and energy-saving/resource efficiency systems		250	-	0	0	7	88	5	7	0	0	107	43%
Output	R110	Number of enterprises receiving support through the Strategic Delivery Body		400	-	0	0	121	103	254	49	107	33	667	167%

Type	Code	Indicator	Unit	Target	Baseline	Achievement								Total	% target met by actual
Output	R111	Area of business space created or modified	m2	20,000	-	0	0	1,332	1,010	11,309	1,314	18,457	136,633	170,055	850%
Output	R112	Number of commercialisation activities		189	-	0	29	73	85	2	0	0	0	189	100%
Result	R113	Increase in turnover in enterprises supported by Strategic Delivery Body	£m	40	-	0	0	2	0	1	4	7	4	18	45%
Result	R114	Number of new products and services developed		10	-	0	14	34	67	27	4	6	5	157	1570%
Result	R116	Number of gross jobs created		2,200	-	0	5	65	39	84	224	508	- 20	905	41%
Impact	R118	Increase in gross value added in supported enterprises		-	-									0	0

3.1.3 Priority 2: Key Drivers for Sustainable Growth

3.1.3.1 Progress to date in Implementation and Key Operational Issues

Financial Analysis

The allocation of funding within the current financial tables continues to be relatively closely aligned to the forecast outturn of the Programme. The average grant rate remains at 37% with the Operational Programme average rate for Priority 2 at 45%.

Qualitative Analysis

The objective of this Priority is to:

“To increase the sustainable growth of the Highlands and Islands economy through expanding the number, diversity and value of output of its enterprises, focusing on key sectors.”

Within this Priority there are two strategic elements:

- To develop the culture and competitiveness of enterprises, especially in the fragile and peripheral parts of the region; and
- To develop businesses of scale and achieve success in key sectors by supporting commercialisation of research and innovation.

Progress

Project awards under Priority 2 are forecast to result in full commitment under this priority. The Managing Authority has continued to work with a number of projects to progress additional activity to ensure that this will be achieved and one final NoC was proposed in 2014 and agreed by an Advisory Group, the PMC are expected to endorse this recommendation in 2015. Many of the projects supported through Priority 2 have been in the more remote and rural areas of the region; including the RSPB's 'Wild Orkney' projects, Shetland Amenity Trust's 'Sumburgh Head Lighthouse Restoration & Development Project' and the Luing Community Trust's 'Atlantic Islands Centre' and will continue to have a significant impact on the ongoing economic development across the region well beyond the end of the Programme period

Whilst a number of indicators have yet to achieve their target in terms of the actual outputs reported, with the exception of the number of patents filed, the forecast outputs continue to be encouraging with a number of indicators now exceeded and the majority of the remainder expected to achieve close to the target. The target against research facilities is not expected to be achieved, however the targets associated with renewable energy research project is expected to be significantly exceeded. This in part reflects the growing strength of the renewables industry and R&D capacity of the region. Whilst the target associated with job creation still has some way to go, there is an accepted lag in project activity and physical creation of new jobs, this will continue to be monitored by the MA and is expected to improve throughout 2015 as projects submit final claims.

Fund Flexibility Options

Two projects supported under Priority 2 chose to use the fund flexibility.

The UHI SDB projects selected Geographical Flexibly at the application stage, however this option has not been used during the delivery of the project.

Culag Community Woodlands Trust selected the Fund Flexibility option, incorporating a series of training opportunities within their ERDF project. Total expenditure for the project is approximately £595k, with £200k of ERDF grant paid. This included £48,498 of expenditure related to training costs.

Case Study: Knockando Woolmill

Project Title	Knockando Woolmill	
Reference	H&I/ERDF/2008/3/2/0270	
Project Sponsor	Moray Council	
Priority	2	
Total Eligible Project Costs	£2,464,221	
Structural Fund Grant Required	£1,099,289	
Intervention Rate Required	44.	
Area Covered	Highland	
Project Description		
<p>Knockando Woolmill is a working spinning and weaving mill in the rural area of Moray, which has been in continuous production since c.1784. It contains a complete set of early textile machinery in its original setting. The wider site comprises the Woolmill House, a cottage, an old shop, winter drying shed, waterpower system, tenter posts and byres. It is considered to be of international significance as it is one of the few surviving small scale working woollen mills in the world. All buildings and machinery are A-listed and the project is the repair and restoration of the buildings and machinery, most of which were in imminent danger of collapse.</p> <p>As well as securing the future of textile production at the mill and providing a unique visitor's experience, this project promotes the textile-making traditions of Knockando, bringing its relevance to Scotland's heritage and architecture to life.</p> <p>After the completion of the restorations the Woolmill will be run by a Community Interest Company with all profits being returned to preserve the overall heritage site. The facility will provide formal education for schools, conservation skills workshops, traditional craft skills training, apprenticeships, a range of further and higher education placements for students in traditional production skills, heritage engineering, building & machinery conservation, and working in partnership with recognised training providers.</p> <p>Goods produced at the Mill using traditional techniques are of a very high quality & range from ties, blankets to cloth. All goods sold will carry a tag explaining about the mill & the production process, as well as a link to an interpretative website.</p> <p>The Woolmill after the restoration works is now open to visitors, who are able to experience first hand the sights, sounds & smells of a working textile mill, which uses traditional production methods. As well as interpretation around the site, guided tours are available to explain each part of the process. Hands-on tasks will help people of all ages relate to the skills involved in this type of production.</p> <p>The project is a case study for utilising sustainable sources within a heritage context. A new biomass boiler will provide a district heating system throughout the complex. A new hydroelectric turbine also produces electricity supplemented by the restored water wheel.</p>		
Indicators and Targets		
Type	Indicator	Target from Approved Application
Output	Number of projects on the sustainable use of natural and cultural assets to develop new products and services	1
Result	Number of new products and services based on natural and cultural assets developed	3
Result	Number of gross jobs created	13

3.1.3.2 *Priority 2: Analysis of Indicators and Targets*

Type	Code	Indicator	Unit	Target	Baseline	Achievement								Total	% target met by actual
						2007	2008	2009	2010	2011	2012	2013	2014		
Output	R201	Number of research facilities supported		30	-	0	0	4	4	1	0	2	0	11	37%
Output	R202	Number of elearning/training facilities supported		60	-	0	0	6	66	0	2	-23	0	51	85%
Output	R203	Number of RTD projects supported		30	-	0	0	8	1	14	1	-5	9	28	93%
Output	R204	Number of renewable energy research projects		10	-	0	0	3	0	1	0	11	0	15	150%
Output	R208	Number of projects on the sustainable use of natural and cultural assets to develop new products and services		70	-	0	0	0	0	0	0	0	0	0	0%
Result	R205	Number of patents filed		20	-	0	0	2	3	2	3	7	1	18	90%
Result	R206	Number of vocational training infrastructure projects supported		10	-	0	0	2	4	5	7	12	6	36	360%
Result	R209	Number of new products and services based on natural and cultural assets developed		50	-	0	0	4	8	16	12	21	40	101	202%
Result	R211	Number of gross jobs created		1300	-	0	0	26	673	187	18	53	0	957	74%
Impact	R207	Increase in RTD expenditure in businesses benefiting from supported activity		*	-										
Impact	R210	Increase in gross value added in businesses benefiting from supported activity		*	-										
Impact	R212	Number of net new jobs created		*	-										-

3.1.4 Priority 3: Enhancing Peripheral and Fragile Communities

3.1.4.1 Progress to date in Implementation and Key Operational Issues

By the end of 2014, Priority 3 was 97% committed.

The average grant rate remains below the Priority average, at 30% - the Operational Programme average rate for Priority 3 being 40%. This has in particular been influenced by the lower intervention rate typically used for transport projects within the priority.

Qualitative Analysis

The objective of the Priority is:

“To support sustainable growth in fragile and peripheral communities of the region in order to contribute to Lisbon goals.”

The funding under Priority 3 is weighted towards projects from fragile areas within the region. Projects must be contributing to areas which satisfy one of the three sets of criteria (geographic, demographic and economic) set out in the Programme.

Progress

Priority 3 is targeted at sustainable growth within the most remote and peripheral areas of the region. This includes support for development of community facilities, childcare and e-learning facilities, support for energy production related to local demand, small scale strategic transport links and investment in ICT infrastructure. The current financial climate continues to see a more challenging operating environment for this activity under Priority 3, and development of appropriate proposals which are viable in the long term is becoming ever more challenging.

The programme has delivered to some degree against all of the activity envisaged within Priority 3. However, this has been well below expectations against a number of targets, the economic environment has influenced this and this effect compounded a number of other external factors; for example a national level investment in broadband provision reducing the demand on ERDF, and introduction of additional support for many small and medium scale renewable energy projects (through Feed in Tariffs) which has excluded grant support from any other sources.

The current economic situation has improved to an extent, however is not expected to change significantly in the near future, continuing to put significant pressure on any business development activity. It is becoming increasingly important that investment in local development supports capacity building rather than one off investment in capital. This will mean support is often more appropriately targeted in terms of development of skills, experience and investment in activity with a more commercial focus; enhancing the medium to long term sustainability, rather than short term project support as more directly supported within Priority 3. To this end, during 2013, funds were vired from Priority 3 into Priorities 1 & 2.

This is also very relevant in terms of the contribution that Community Planning Partnerships have made to delivery of outputs and draw down of funding under Priority 3. This will reflect an anticipated reduction in commitment within Priority 3 in the region of £2.5M and whilst the aspiration of locally led development continues to form a key element of the Programme, it is clear that in the current environment the structure of CPP Plans within the Highlands & Islands relied too heavily on delivery by third sector and smaller organisations to be resilient to changes in funding and priorities.

Fund Flexibility Options

No projects have selected fund flexibility options.

Case Study: Regenerating Hynish

Project Title	Regenerating Hynish	
Reference	H&I/ERDF/2008/2/3/0035	
Project Sponsor	THE HEBRIDEAN TRUST	
Priority	3	
Total Eligible Project Costs	£355,500- On EUROSYS- Original application £190,00	
Structural Fund Grant Required	£129,597- on EUROSYS	
Intervention Rate Required	36.45 on EUROSYS – original application 39.99	
Area Covered	Highland	
Project Description		
<p>This project is to maximise the potential of the current Hynish activity centre which was opened in Hynish on the Isle of Tiree in 1991. With a population of 770 (density 0.09 persons per sq km), mainly single track roads and 60 miles from the nearest port, the island is geographically and demographically both fragile and peripheral. Since opening, the centre has subsidised use by thousands of disadvantaged young people. The centre is also used by other groups, such as windsurfers. Their rates are not subsidised and this additional income goes towards subsidising disadvantaged groups. The centre works with community groups and activity instructors and contributes £50,000 annually to the local economy, using local suppliers of both food and services. We employ a full time warden and 2/3 casual workers.</p> <p>One of the project aims is to increase the occupancy with the reconfiguration of relatively basic sleeping accommodation of bunk rooms and communal bathrooms of the first floor of the activity centre to provide flexible bedroom and bathroom accommodation.</p> <p>The Trust is seeking to maximise the potential of the centre and its contribution to the local economy, including its provision as a local community resource. This is to be achieved by extending the season, increasing occupancy and providing more catered services. The objectives are to continue to satisfy the demands of existing groups, to improve facilities for the local community and to attract a range of users from different interest groups.</p> <p>The project includes the creation of a new entrance to the centre, to provide better access for community use for a range of activities including meetings, lectures, social events and community events such as the annual Tiree Feis, improved access to the first floor and the installation of a vertical lift, to carry those with mobility problems between the ground and first floors. The project will also provide for the marketing of the reconfigured accommodation for niche holidays, harnessing the value of the remote location, outdoor pursuits and accessing the natural heritage.</p> <p>Further activities include the creation of a new exhibition and interpretation facility. This will focus on the natural heritage of the Treshnish Isles. The work will involve converting an “A” listed former cowshed adjacent to the activity centre in order to house the facility. The exhibition centre will have audio visual facilities which will allow visitors and the community who find the location of the Treshnish Isles physically inaccessible to experience the Isles. The conversion of the ‘A’ listed building which is part of the island’s maritime history will open up this heritage property to a wider audience while retaining the original character.</p>		
Indicators and Targets		
Type	Indicator	Target from Approved Application
Output	Area of business space created or modified (m2).	475
Result	Number of gross jobs created.	1

3.1.4.2 *Priority 3: Analysis of Indicators and Targets*

Type	Code	Indicator	Unit	Target	Baseline	Achievement								Total	% target met by actual
						2007	2008	2009	2010	2011	2012	2013	2014		
Output	R301	Number of e-learning/childcare and other community facilities supported		15	-	0	0	1	3	3	2	1	2	12	30%
Output	R302	Area of business space created or modified		2,750	-	0	132	0	1378	510	681	0	233	2934	140%
Output	R303	Number of transport projects supported		15	-	0	0	6	2	1	5	2	2	18	120%
Output	R304	Number of ICT infrastructure projects supported		1	-	0	0	0	0	0	0	0	0	0	0%
Output	R305	Number of renewable energy projects supported		10	-	0	0	0	2	1	0	1	1	5	50%
Output	R311	Number of energy efficiency initiatives supported in Social Housing		4	-	0	0	0	0	0	0	1	2	3	75%
Output	R312	Number of social housing units improved		400	-	0	0	0	0	0	0	112	203	315	79%
Result	R306	Number of gross jobs created		600	-	0	7	0	2	9	22	13	7	60	10%

4. MAJOR PROJECTS

4.1 Major Projects

There were no major projects approved in 2014.

5. TECHNICAL ASSISTANCE

5.1 Use of Technical Assistance

Under Article 45 of the General Regulation (EC) No 1083/2006 of 11th July 2006, Technical Assistance may finance the preparatory, monitoring, administrative and technical support, evaluation, audit and inspection measures necessary for programme implementation. Such actions shall include in particular:

- i. assistance for project preparation and appraisal;
- ii. evaluations and studies;
- iii. measures aimed at partners, beneficiaries and the general public relating to the provision of information;
- iv. measures to disseminate information and raise awareness;
- v. the installation, operation and interconnection of computer systems for management, monitoring, inspection and evaluation; and,
- vi. improvement in evaluation methods.

5.2 Use of Technical Assistance

During 2013 a number of projects received assistance from the Technical Assistance budgets of all four Programmes (H&I ERDF and ESF, and LUPS ERDF and ESF) to review activity under the 2007 – 13 Programme, prepare the way for the new implementation methodologies, and acknowledgement of Roma importance.

The breakdown of these projects are as follows:

Project Name	Total Cost	Grant Requested	Programme Relevance (H&I / LUPS) ¹⁰	Project Description
2007-13 Convergence Programmes in H&I	£259,888	£129,944	H&I ESF = 6% H&I ERDF = 15% LUPS ESF = 33% LUPS ERDF = 46%	This application will evaluate lessons learned from the 2007-2013 Convergence Programmes.
Developing Simplified Costs - WoSCOP	£19,276	£9,638	H&I ESF = 6% H&I ERDF = 15% LUPS ESF = 33% LUPS ERDF = 46%	This project aims to exploit the advantages of the EC's Simplification Agenda to achieve the maximum benefit of the Scottish Structural Fund Programmes to contribute to more effective and efficient operation of SF projects through the optimal use of simplified costs.
Roma Inclusion Technical Assistance	£100,370	£50,185	H&I ESF = 6% H&I ERDF = 15% LUPS ESF = 33% LUPS ERDF = 46%	This project will ensure that Scotland is better prepared to meet the Commission's Roma inclusion requirements. It will provide a solid foundation of knowledge, sustain the already established networks (national, UK and trans-national) and guarantee the capacity to develop needs based Roma inclusion interventions for the future.
Developing Simplified Costs	£58,110	£29,055	H&I ESF = 6% H&I ERDF = 15%	This TA project will establish: <ul style="list-style-type: none"> • An assortment of simplified costs

¹⁰ The funding comes from the TA allocation, which is split across all 4 programmes each project application is split across the LUPS and Highlands & Islands ERDF and ESF programmes

Project Name	Total Cost	Grant Requested	Programme Relevance (H&I / LUPS) ¹⁰	Project Description
			LUPS ESF = 33% LUPS ERDF = 46%	<p>models for all the sectors/business areas which receive European Structural Funds (both European Social Funds and European Regional Development Funds) in the future programme period;</p> <ul style="list-style-type: none"> • An assortment of simplified cost models for the Youth Employment call under the current programmes; • Test these models in line with Scottish Government compliance and audit requirements before presenting their recommendations to the European Commission for approval; • Lessons learned review of simplified cost models used in the current programmes (including a review of unit costs used in other UK regions); • Establish delivery arrangements for the simplified cost models; • Establish guidance and management structure for the models identified.
Third Sector (H&I) TA Evaluation	£34,122	£17,061	H&I ESF = 6% H&I ERDF = 15% LUPS ESF = 33% LUPS ERDF = 46%	<p>Delivering a comprehensive evaluation programme assessing and reporting on:</p> <ul style="list-style-type: none"> • The 3rd Sector's (and sponsoring public sector partners') view on appropriate impacts and outcomes from the 2014+ Structural Funds programmes in Scotland. • The national and regional needs the 3rd Sector would wish to see addressed. • A constructive critique of processes and procedures, identifying strengths and weaknesses with recommendations on Improvements to promote greater participation and enhance quality in project delivery.
Third Sector (LUPS) TA Evaluation	£38,224	£19,112	H&I ESF = 6% H&I ERDF = 15% LUPS ESF = 33% LUPS ERDF = 46%	As above for LUPS.

6. INFORMATION AND PUBLICITY

6.1 Scottish Communication Plan

The Communication Plan defines how information about the European Structural Funds in Scotland for 2007 - 2013 will be communicated and publicity activity devised and delivered. It sets out the key stakeholders and other interested parties, key messages about the European Regional Development Fund (ERDF) and European Social Fund (ESF) activity and the communication channels used to disseminate this information. It sets out how the Scottish Government will provide information that is timely, clear, and reliable, and in a form compatible with EC Regulation 1828/2006.

6.2 Publicity and Information

The communications activity for the European Structural Funds is the responsibility of the recently established communications team which comprises a Communication and Engagement Manager and a Communications Officer. The team is solely responsible for all communications and publicity activity relating to the ESF and ERDF programmes. The team is taking a proactive approach to communicating and promoting the funds in Scotland.

European Structural Funds Division Website

The European Structural Funds website has undergone significant change throughout 2014. Information is now categorised by programming period so that the user can find information quickly, reducing the amount of time visitors have to spend searching the website. This approach has resulted in positive feedback from Scottish Government staff and external stakeholders.

The Communications and Publicity section of the website has also recently been updated with information categorised by programming period. The 2007-2013 Communications and Publicity section includes the logos for 2007-2013 and the Publicity Requirements and Communications Plan documents. There is also information relating to the 2013 annual communications activity and photos capturing the event.

Annual Publicity Event

The Scottish Government's European Structural Funds division is required by EC regulations to carry out an annual communications activity for each year of the ERDF and ESF programming period. Past activity has ranged from award ceremonies and road shows to stakeholder information days. In 2014 a new approach was taken which used digital technology (in the form of an online booklet) to promote and raise awareness not only of the achievements of the funds over the previous 12-month period, but also European funding achievements in Scotland over the last seven years.

The online booklet - A Smart, Sustainable and Inclusive Scotland in Europe – also included information about the 2014-2020 programme as it was the beginning of the new ERDF and ESF programmes and the booklet was a good opportunity to engage with stakeholders about future work.

The online booklet includes an overview of the 2007-2013 programmes, 20 case studies covering ESF and ERDF, and an introduction to the 2014-2020 programmes which outlines the main aims and objectives for the next seven years and the strategic plan to achieve these.

Publicity Requirements

The Scottish Government published the European Structural Funds 2007 - 2013 Programme Publicity Guidance in line with requirements under Articles 8 and 9 of Regulation 1828/2006.

The guidance covers how and when to acknowledge the European Union's Structural Funds contribution, information about the correct use of logos and the technical specification realtign to their use.

A copy of the guidance, the relevant European Commission Regulations and the agreed European Structural Fund logos for Scotland can be found on the Scottish Government website.

Announcement of List of Projects

A full list of approved projects is available from Scottish Government website at: <http://www.scotland.gov.uk/Topics/Business-Industry/support/17404/StructuralFunds2007-201/17405>

Visibility and Awareness

When the new Communications Team was established in September 2014 a Google Analytics account was set up to record information about visitor to the European Structural Funds pages of the Scottish Government website. Monitoring activity included the number of visits to the website per month and the most frequently visited pages. The information was used in the redesign of the website to improve the experience for visitors. This included the archiving of pages no longer viewed to remove out of date information.

Measures were also established to increase traffic to the site. This included regular email updates about the programme sent to stakeholders, often with a link to the 'Latest News' section of the website. The strategy proved successful, with Google Analytics results showing that visits to the 'Latest News' section of the website increased from 217 in September 2014 to 707 by January 2015. During the same period the section recording the highest increase in visitor numbers was the 'Programme Documentation' section for 2014-2020, with rates increasing from 159 in September 2014 to 1,059 in January 2015.

Statistics for the website will continue to be analysed and the website will be updated accordingly.

Annex 1 Funding allocation against Lisbon Codes

CODE BY PRIORITY THEME DIMENSION	CODE FOR THE FORM OF FINANCE DIMENSION	CODE FOR THE TERRITORIAL DIMENSION	CODE FOR THE ECONOMIC ACTIVITY DIMENSION	CODE FOR THE LOCATION DIMENSION	COMMITTED GRANT (€)
01	01	03	21	UKM65	478,202.70
01	01	05	18	UKM6	2,400,380.34
02	01	05	18	UKM6	9,456,026.06
02	01	05	18	UKM62	3,500,000.00
04	01	03	21	UKM65	6,015,000.00
04	01	05	08	UKM6	1,504,778.00
04	01	05	21	UKM6	427,324.57
04	01	05	22	UKM62	571,908.00
05	01	03	15	UKM64	494,255.36
05	01	03	16	UKM66	515,315.00
05	01	03	22	UKM64	1,209,636.58
05	01	05	06	UKM63	3,798,835.00
05	01	05	12	UKM61	2,600,000.00
05	01	05	14	UKM6	210,695.00
06	01	03	08	UKM66	266,700.00
06	01	05	21	UKM6	91,363.19
07	01	05	21	UKM61	2,213,236.65
08	01	03	04	UKM64	91,694.85
08	01	03	21	UKM64	2,187,188.20
08	01	03	22	UKM64	1,799,403.99
08	01	05	21	UKM62	464,757.00
08	01	05	22	UKM61	130,000.00
08	03	05	22	UKM6	2,657,532.00
09	01	03	21	UKM65	1,189,802.21
09	01	05	06	UKM6	6,815,000.00
09	01	05	16	UKM6	11,820,000.00
10	01	03	10	UKM66	367,500.00
10	01	03	20	UKM64	18,719.19
14	01	03	16	UKM63	464,381.34
14	01	05	16	UKM63	44,120.00
14	01	05	18	UKM6	3,386,666.00
14	01	05	20	UKM6	294,481.89
14	01	05	22	UKM6	34,000.00
23	01	03	11	UKM63	423,672.15
23	01	03	12	UKM63	500,000.00
23	01	03	12	UKM64	1,707,585.82
23	01	05	11	UKM6	500,000.00
23	01	05	11	UKM63	250,000.00
26	01	03	11	UKM63	500,000.00
26	01	03	11	UKM65	153,814.56
26	01	03	11	UKM66	17,865.38
30	01	03	11	UKM63	369,158.02
30	01	03	11	UKM66	411,249.79
30	01	05	11	UKM63	528,688.00
40	01	05	12	UKM63	54,583.20
42	01	03	08	UKM65	320,452.94
42	01	03	21	UKM66	639,667.00
50	01	05	16	UKM62	60,720.00
51	01	03	18	UKM63	1,908,000.00
55	01	03	21	UKM65	311,625.52
55	01	03	21	UKM66	1,803,000.00
55	01	05	14	UKM6	3,142,272.31

55	01	05	19	UKM62	168,308.54
55	01	05	21	UKM6	445,305.00
55	01	05	21	UKM61	263,835.00
55	01	05	21	UKM63	1,033,068.12
57	01	03	12	UKM63	360,391.37
57	01	03	22	UKM6	432,951.00
57	01	05	11	UKM6	224,000.00
57	01	05	18	UKM62	436,217.00
57	01	05	21	UKM61	447,756.63
57	01	05	21	UKM62	722,502.00
57	01	05	21	UKM63	270,500.00
57	01	05	22	UKM63	84,258.57
60	01	03	20	UKM65	1,104,472.28
60	01	03	21	UKM66	168,000.00
60	01	03	22	UKM64	1,951,824.86
60	01	03	22	UKM66	3,110,837.30
60	01	05	04	UKM62	1,099,289.36
60	01	05	12	UKM62	784,632.08
61	01	03	14	UKM63	135,161.34
61	01	03	16	UKM65	385,064.59
61	01	03	18	UKM63	590,000.00
61	01	03	18	UKM64	133,964.00
61	01	03	18	UKM66	1,809,000.00
61	01	03	20	UKM63	962,568.48
61	01	03	21	UKM64	902,148.00
61	01	05	06	UKM62	237,495.00
61	01	05	14	UKM63	172,789.51
61	01	05	18	UKM62	108,763.60
61	01	05	20	UKM61	1,106,311.46
85	01	05	17	UKM	2,250,000.00
85	01	05	17	UKM6	1,277,141.87
86	01	05	18	UKM	3,681.30
86	01	05	20	UKM6	7,527.75
86	01	05	22	UKM	8,760.94
86	01	05	22	UKM6	30,721.39

€104,350,506.15