EVALUATION OF THE STRATEGIC DELIVERY MECHANISMS OF THE EUROPEAN STRUCTURAL FUNDS PROGRAMMES 2007-13 IN SCOTLAND

FINAL REPORT

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CONTENTS

0 EXECUTIVE SUMMARY

Background

Prior to the commencement of the 2007-13 Programme period the then Scottish Executive anticipated that the level of Structural Funds allocated to Scotland would be lower than during 2000-06. Accordingly, part of the development process for the Operational Programmes for 2007-13 involved examining options for Programme management and delivery which would meet the goals of:

- greater strategic alignment;
- greater tactical fit; and
- give the best value for money and achieve greatest impact with the reduced funds available.

Drawing upon experience of delivery arrangements in other Member States, the Scottish Executive decided that a range of Strategic Delivery Mechanisms would be developed to deliver elements of the 2007-13 Highlands and Islands and Lowlands and Uplands ERDF and ESF Operational Programmes. It was proposed in the Implementing Provisions chapter of each Programme that mechanisms would include:

- **Strategic Delivery Bodies** comprising Scottish Enterprise (LUPS), Highlands and Islands Enterprise, and the UHI Millennium Institute (H&I).
- **Community Planning Partnerships** comprising urban area CPPs within LUPS targeted on the basis of disadvantage and all CPPs in H&I.
- **Global Grants Body** (Article 42) covering the former South of Scotland Objective 2 area within LUPS only.

In addition, during the operational phase of the programmes, and specifically in relation to the creation of ESF Priority 5 in the LUPS area in 2010, a number of organisations designated **National Delivery Bodies**[1] were identified to commission strategic activity in LUPS.

The Evaluation Purpose and Method

The overall objective of the present evaluation has been to:

"focus on evaluating what has worked well and what hasn't worked so well with a view to making recommendations for the Strategic Delivery Mechanisms in the future Programmes".

The evaluation research has comprised:

- Analysis of Programme Management Data held on Eurosys.
- Consultations with SG and Stakeholders.
- Face-to-Face Consultation Programme with SDMs.
- Supplementary Telephone Consultation with SDMs.
- Face-to-Face Consultation Programme with Delivery Partners.
- E-Survey of SDM Delivery Partners.

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[1] National Delivery Bodies comprise Skills Development Scotland, Scottish Further & Higher Education Funding Council, Scottish Trades Union Congress, Scottish Council of Voluntary Organisations (fronting the Third Sector Consortium).

SDM Role, Function and Effectiveness

The evaluation finds that the SDBs and CPPs were effective, although there was a variation in performance amongst the CPPs. SE and HIE were already strategic in their orientation, working to existing strategies and business plans well aligned with large areas of the OP scope. The CPPs struggled initially with developing an integrated approach to local development but latterly have risen to the challenge of delivering against the narrower objectives of the pipeline approach to employability.

The relatively short lifespan of the GGB and the absence of a comparable successor body makes it difficult to draw detailed conclusions about its performance and its potential utility as an SDM.

Amongst the NDBs, SFC and SDS operated efficiently. STUC has a track record of delivery in both LUPS and H&I, and, along with SFC and SDS, would potentially benefit from the ability to deliver nationally in pan-Scotland Programmes. The aspirations for SCVO as an NDB were not met.

Guidance and Support

The evaluation finds that, in general, the SDBs delivered activity aligned with the Scottish Government's statutory aims, the CPPs aligned Structural Funds with key aims based on SOAs, and activity co-ordinated by National Delivery Bodies was aligned with key national aims. SDMs operated in an environment where strategic guidance, including aims and objectives, was available.

The limitations of written guidance in the establishment phase needs to be viewed in the context of the very small number of SDBs and NDBs. The largely negotiated process employed in these cases was appropriate and successful. Weaknesses in guidance for the CPPs was in some cases problematic.

Following the establishment of SDMs, the guidance provided on issues such as eligibility of projects and/or expenditure was inconsistent and subject to change over time. This was compounded by a lack of continuity in contacts with the Scottish Government Structural Funds and Audit Teams, both of which were subject to high levels of staff turnover.

Development of the Project

SDM priorities and activities were variously identified by reference to national policy, and to strategies at regional or sub regional level, supplemented in some cases by bespoke socio-economic analysis.

The main forms of added value took the form of increasing the volume of activity, particularly where businesses or ESF beneficiaries were involved, and enabling activity to happen more rapidly or on a larger scale. Qualitative added value such as partnership working and reduction of duplication of provision was also found.

While levels of awareness of the horizontal themes of equal opportunities and environmental sustainability were found to be high, the evaluation encountered evidence to suggest that the themes were not treated as proactively as in the previous Programme phase.

Partnership and Delivery

Partnership involvement in governance varied by SDM. Governance in the SDBs was largely internal, whereas in the CPPs partners were often involved in governance arrangements with regular management meetings. The number of CPPs and the sub-groups or committees that they established stretched the staff resources of agencies such as SDS and SFC who were expected to coordinate with CPPs.

A high degree of partnership working was identified, particularly involving SDMs and delivery partners involved in the strategic skills pipeline.

While CPP partnerships were happy with their internal arrangements in 2007-13, there is increasing tension between the traditional model of local development partnership and the administrative and audit requirements of the Structural Funds. Where delivery was procured, the burden of ensuring compliance was reduced. These findings raise doubts about the suitability of the proposed Community-led Local Development (CLLD) mechanism as a basis for effective and efficient local delivery in 2014-20.

Outputs and Results

The financial and physical performance of activity under the management of SDMs has not proceeded according to planned profiles. This is generally attributed to unforeseen economic conditions. It has not proved possible to compare the rate of financial and physical progress of the SDMs with the rate for Programmes as a whole due to difficulties in securing comprehensive and suitably comparable data from the Eurosys management information system.

Project Management, Verification and Audit

Many SDMs and Delivery Partners had to invest in new or modified MIS to facilitate the recording and reporting of financial progress, outputs and results in a form consistent with Structural Funds requirements. Having collated and submitted data several respondents commented that Eurosys did not meet reporting requirements, was not user-friendly and that information on the system was sometimes out of date.

A number of systems were used by SDMs when costing projects. These included benchmarking from existing activity; Real Cost Recovery; and Weighted Student Unit of Measurement System (WSUMS). The latter was a significant step towards introducing standardised costs for volume activity and represented a simplification on methods that had operated previously. Support was identified for the adoption of simplified cost models where appropriate.

Many SDMs and Delivery Partners view verification and audit as disproportionate, time-consuming and resource-intensive. Administrative costs of up to 30% of total expenditure were attributed to escalation of compliance requirements.

Value for Money

The evaluation findings in relation to the value for money represented by SDMs is inconclusive. This reflects the non-availability of baseline and micro-accounting data covering the different levels of administration: Central, SDM and Delivery Partners. Moreover SDMs were introduced against a background of increasing administrative costs of achieving compliance, although this was not specific to SDMs.

Nevertheless, some evidence emerges from the research which indicates that aspects of the use of SDMs contributed to improved value for money, for example as a result of greater synergy achieved with Scottish Government priorities, reduction in duplication of activity and partnerships to sharing experiences and best practice.

Relationships with the Managing Authority

Overall, consultees and respondents were generally positive about their working relationships with the Scottish Government. Areas of dissatisfaction are mainly concerned with staff turnover, inconsistency in interpretation of eligibility of projects or expenditure, delays in payments and perceived over-administration of claims, payments and audit.

Recommendations

Detailed recommendations have been formulated on the basis of the above findings, the general thrust of which is as follows:

- SDMs, including the Scottish Government may play an expanded role in the implementation of Structural Funds in 2014-20 period. Consideration should be given to identifying other bodies that could play a strategic role in the proposed "Low carbon, resource efficiency and the environment" theme.
- A more formal but proportional process for establishing SDMs should be put in place including a template that sets out the information that the Managing Authority will need, to assess each agency's ability to co-ordinate and/or deliver the elements of the Programme for which they have been given responsibility.
- A comprehensive guide on all aspects of Programme and project implementation should be published and kept up to date, to reflect changing circumstances, including legislative or institutional changes. This should be supplemented with training on programme and project management for key staff in all agencies involved.
- The horizontal themes should be given greater prominence and wherever possible a *proactive approach* to the themes of equality of opportunity and environmental sustainability should be taken. In the context of potential national delivery and layers of contracting, action should be taken to ensure that the distinctive EU policy requirements, including the horizontal themes, are understood and integrated at the point of delivery.
- An approach to integrated local development should be promoted which upholds the partnership principle but is fit-for-purpose having regard to contemporary administrative and compliance requirements. Consideration should be given to the potential contribution of simplified cost models and procurement models in this regard. We envisage new partnerships will be consultative in nature, with lead partners holding substantial match funding consulting on how the funds can best be targeted to meet wider partnership aspirations. CPPs should be afforded the opportunity to be lead partners in relation to their area. Among smaller local authority areas, consideration should be given to the scope for collaboration and pooling of resources to create adequate capacity and administrative efficiency.
- When the detail of the draft Regulations and the scope of the next round of Operational Programmes is finalised an assessment should be made of the capacity of Eurosys – in its current or modified form – to meet future reporting requirements, with particular regard to recording and reporting results.

TABLE 0.1: SUMMARY COMPARISON OF KEY EVALUATION FINDINGS				
Criteria	SDB	CPP	GGB	NDB
Process of Establishment/Guidance	The LUPS & H&I Operational Programmes (2007) identified the three Strategic Delivery Bodies and provided clear information about the anticipated scope of their involvement in the Programmes	The key features of the status and role of CPPs were described in the Operational Programmes.	The role and scope of the South of Scotland GGB was presented in the LUPS Operational Programme.	Four NDBs were identified following the LUPS PMC decision in 2010 to vire all remaining funds from ESF Priorities 1, 2 and 3 into a newly created Priority 5 which would fund the development of strategic skills pipelines.
Guidance	SDBs in H&I were party to the development of guidance which framed negotiations, whereas in LUPS SE was engaged as an SDM through a negotiated process only.	Variation in process depending when CPPs were engaged. Initial guidance normally OPs and National rules: felt to be too limited, especially regarding eligibility of expenditure.	No evidence of guidance beyond the LUPS OP.	No specific written guidance, but developed during meetings and discussions, including with the PMC.
Delivery (1): Governance and Partnership	Typically internal governance and relatively limited partnership working, although the UHI continues to operate and deliver through its 13 constituent colleges and research institutes.	Characterised by strong approaches to partnership; governance arrangements often reflect this, with multi-partner/multi-level systems. Note that the LUPS CPPs have been more active in the SDB field than those in H&I.	Initially governance was with Dumfries & Galloway Council and then ESEP. Limited evidence of partnership working.	Tendency towards internal governance and variable degrees of partnership working. SFC engages all institutions within its remit; SDS convenes a group that includes reps for 12 CPPs and other organisations.
Delivery (2): Financial & Physical Progress	Two out of three SDBs behind financial profile, but expected to absorb over longer period. Most targeted outputs expected to be achieved. Some shortfall or delay in targeted results.	Eight of thirteen spending and delivering outputs to profile. Seven expected to deliver targeted results. Most result gaps relate to qualifications and employment outcomes.	10 organisations delivered 18 projects that were, in effect, "stand alone", with no strategic coordination.	SFC and STUC spending to profile and expected to achieve output and result targets. SDS behind spend profile and likely to have 5-10% shortfall in outputs and a larger shortfall in results, particularly employment outcomes.

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Criteria	SDB	CPP	GGB	NDB
MIS, Data and financial systems	In general, systems were reasonably or completely compatible with SG reporting requirements. UHI moved to a simplified cost system.	CPPs that had previously had lower levels of SF involvement had to invest in enhanced IT systems. At least one CPP procures all activity through external contractors.	N/A	In general, systems were reasonably or completely compatible with SG reporting requirements. SFC moved to simplified WSUMS costing system.
Verification & Audit and Value for Money	Although some consultees had not experienced problems as a result of audit, the overall consensus was that the audit process is burdensome requiring considerable and lengthy staff input which was often deemed to be disproportionate to grant received. This point resonates with the view expressed by several organisations that the administrative costs and effort associated with the Structural Funds reduced the potential for securing value for money from the SF investments.			
Added value	Similar views were expressed from respondents across the range of SDMs. The most commonly cited example of added value was that the Structural Funds facilitated a volumising of activity. Accelerating the pace of projects was also referred to frequently. Several respondents felt that the SDM approach had resulted in more effective partnership working.			
Scottish Government	In terms of day-to-day working relationships between SDBs and SG, comments were generally favourable. However, a consistent comment, drawn from each type of SDM, was that SG's performance would be improved if staff turnover could be reduced, expertise enhanced and consistency of advice, based on clear written documentation, provided. A common view is that clear guidance will be required from day one of the next round of Programmes.			

Criteria	SDB	CPP	GGB	NDB
Summary: advantages and disadvantages and prospects for 2014-20	The SDBs are appropriately termed "strategic": they operate across broad geographies, carrying out wide ranges of activities and have drawn upon both ERDF and ESF resources. This breadth of activity potentially permits the development of integrated strategic approaches to economic development which is in line with the Scottish Government's proposals for greater concentration of future Structural Funds investments.	The strength of the CPPs lies in their ability to promote an intensity of partnership working and, in urban areas, across fairly narrowly defined geographies. A willingness to integrate Funds is apparent and this should provide a basis for engagement in possible new forms of delivery mechanisms in the next generation of Operational programmes.	Relatively short lived; hindered by scope of eligible projects. No apparent prospect of resurrection.	Mixed messages regarding the effectiveness of the 4 NDBs. SFC and SDS have clear remits, each securing delivery through wide ranges of organisations across Scotland. This provides a strong basis for operating within the context of the proposed pan-Scotland OPs. Systems based on the SFC's simplified costing model should be adopted by other organisations for volume activities. STUC has a Scotland-wide remit but it is debatable whether its activities to date have had strategic impact. SCVO was unable to fulfil it envisaged remit, being unable to accept financial accountability for other third sector bodies.

1   INTRODUCTION

This is the Final Report of an evaluation by Fraser Associates (the Consultants) of the use of Strategic Delivery Mechanisms (SDMs) by the Scottish Government (SG) to deliver and administer European Regional Development Funding (ERDF) and European Social Fund (ESF) resources in Scotland in the period between 2007 and 2013. SDMs were introduced for both the Lowland and Upland Scotland (LUPS) and Highlands and Islands (H&I) Programmes in place over this period. The evaluation was conducted between January and May 2013.

SDMs were introduced for the 2007-13 Programmes as they were anticipated to provide for:

- greater strategic alignment;
- greater tactical fit; and
- best value for money and enhanced impact with the reduced funds available.

The overall objective of the evaluation, specified in the brief issued to the Consultants, was to:

"focus on evaluating what has worked well and what hasn't worked so well with a view to making recommendations for the Strategic Delivery Mechanisms in the future Programmes".

The Consultants engaged with the entire spectrum of SDMs in the course of the evaluation process, including 16 Community Planning Partnerships (CPPs), four National Delivery Bodies (NDBs), three Strategic Delivery Bodies (SDBs) and the Global Grants Body (GGB). The Consultants also surveyed a wide range of Delivery Partners (DPs) engaged by the SDMs to implement projects.

In the following sections of this report we:

- Establish the background and context to the use of SDMs in delivering the 2007-13 Programmes.
- Detail the evaluation objectives and method.
- Record the findings of our consultations and survey fieldwork with SDMs, DPs and Stakeholders.
- Synthesise and interpret our research findings.
- Consider the evolution of SDMs in the context of our findings, experience from LEADER, and EC proposals for delivery of the 2014-20 Programmes (A note on the draft Regulations for the forthcoming Programme period is at **Annex 1**.)
- Draw conclusions and recommendations based on the foregoing.

2 BACKGROUND AND CONTEXT

2.1 Briefing

At inception the Scottish Government provided a summary briefing on the objectives of the SDMs in 2007-13 as variously reflecting:

- scope to use the Funds more strategically and to reduce duplication.
- a desire to reduce administrative costs and increase the value obtained from the Funds.
- uncertainties arising from the complexity of administration, the EC audit stance and a tendency among administrators to manage risk by gold plating of processes.

The Scottish Government also underlined the potential value of an objective evaluation in informing decisions on delivery mechanisms for 2014-20. In parallel the Scottish Government has launched a consultation exercise on its provisional proposals for the next generation of Programmes.[2]

2.2 Evolution and Implementation of SDM Concept

Prior to the commencement of the 2007-13 Programme period the then Scottish Executive anticipated that the level of Structural Funds allocated to Scotland would be lower than during 2000-06. Accordingly, as part of the development process for the Operational Programmes for 2007-13, research was commissioned to identify options for Programme management and delivery which would meet the goals of:

- greater strategic alignment;
- greater tactical fit; and
- give the best value for money and achieve greatest impact with the reduced funds available.

The findings of the research, which was based on analysis of Programme delivery arrangements in other Member States and of views expressed by Scottish stakeholders, included a range of options which provided alternatives to the competitive bidding system that previously underpinned Scottish Programmes.[3]

Taking the research into account, a decision was taken by the Executive, acting as Managing Authority, that a range of Strategic Delivery Mechanisms would be developed to deliver elements of the 2007-13 Highlands and Islands and Lowlands and Uplands ERDF and ESF Operational Programmes. It was proposed in the Implementing Provisions chapter of each Programme that mechanisms would include:

Strategic Delivery Bodies (LUPS and H&I)
Community Planning Partnerships (LUPS and H&I)
Global Grants Body (Article 42) (LUPS only)

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[2] The Scottish Government's consultation document is at: http://www.scotland.gov.uk/Topics/Business-Industry/support/17404/latest-news/ESF-2014-2020-Consultation
[3] "Making Every Euro Count", Final report on EU Structural Funds administration options for Scotland, Hall Aitken, January 2006

In addition to the organisations identified under the above three categories, during the operational phase of the programmes, and specifically in relation to the creation of ESF Priority 5 in the LUPS area in 2010, a number of organisations designated **National Delivery Bodies**[4] were identified to commission strategic activity in LUPS.

In the following sections we consider the evolution and form of each of these SDMs.

2.3 Strategic Delivery Bodies

With the goal of achieving greater <u>strategic alignment</u> (i.e. between Scottish Executive/Government objectives and objectives driven by the Lisbon Agenda) the Operational Programmes identified Strategic Delivery Bodies and the anticipated scope of their involvement in the Programmes as follows:

- **Scottish Enterprise:** LUPS ERDF Priority 1 (Research and innovation).
- **Highlands and Islands Enterprise:** H&I ERDF Priority 1 (Enhancing business competitiveness, commercialisation and innovation).
- **University of the Highlands & Islands**: H&I ERDF Priority 2 (Enhancing key drivers of sustainable growth) and ESF Priority 3 (Access to Lifelong Learning).

The key features of the status and governance arrangements for SDBs were described in the Operational Programmes as follows:

- Activity would only be supported that was clearly additional to existing activities and fully eligible with the scope of the Programme (i.e. compliant with the project selection criteria for relevant Priorities).
- The SDBs would be acting as beneficiaries, as defined by Article 2(4) of Regulation 1083/2006. They would therefore be responsible for the overall financial management, reporting and accounting of expenditure (such as the submission of quarterly claims) for any approved bids. Verification of projects and expenditure would be carried out by the IAB (until June 2012, thereafter the Scottish Government).
- A three-year outcome agreement would set out planned expenditure, projects to be supported and financial and performance targets. Funding would be expected to support a handful of strategic projects of regional or sub-regional significance, selected using the SDB's internal selection procedures, to be described in the outcome agreement.
- The Managing Authority would have the authority to discontinue SDB status within the three-year period with particular regard to financial and outcome performance: targets - where these were significantly under-achieved the PMC would have the option of re-allocating all or part of the remaining funding to the competitive bidding pot of the relevant Priority.
- Towards the end of the first outcome agreement, the Managing Authority would commission an evaluation of the performance of the SDB against agreed targets which would form the basis for decisions on any subsequent outcome agreement.

It should be noted that two of the SDBs also received support from ERDF/ESF outwith the SDB arrangements:

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[4] National Delivery Bodies comprise Skills Development Scotland, Scottish Further & Higher Education Funding Council, Scottish Trades Union Congress, Scottish Council of Voluntary Organisations (fronting the Third Sector Consortium).

- Scottish Enterprise: LUPS ERDF Priorities 2 (Enterprise growth), 3 (Urban regeneration) and 6 (Global Grants).
- Highlands and Islands Enterprise: H&I ESF Priority 2 (Investing in the workforce).

2.4 Community Planning Partnerships

2.4.1 General

Working towards the goal of achieving greater <u>tactical alignment</u> between locally derived objectives and the scope within the Priorities of the Operational Programmes the Scottish Executive/Government invested a degree of responsibility for Structural Funds management in the CPPs.

Community planning, based on the Local Government in Scotland Act 2003, is the process by which councils and a wide range of other public sector bodies (e.g. NHS, enterprise agencies, colleges, third sector organisations) work together with local communities and the business sector to plan and achieve better delivery of services that include economic and skills development, community regeneration and renewal. All councils have established a CPP.

The key features of the status and governance arrangements for CPPs were described in the Operational Programmes as follows:

- CPPs would act as groupings of beneficiaries in that all funded projects would be delivered directly by members of the Partnerships and would be charged with delivering an 'operation' under the definition set out in Article 2 of Regulation 1083/2006.
- The CPPs would be selected on a competitive basis in line with the procedures set out in section 6.1.
- Funding would be delivered through specified accountable bodies - acting as 'lead beneficiaries'. Projects would be set out in specific Structural Funds outcome agreements in line with the existing Regeneration Outcome Agreements for the CPPs. The outcome agreements would identify the projects to be funded by the ERDF/ESF contribution, how these projects were additional to those already planned in the Regeneration Outcome Agreements, the selection criteria used to identify the projects, how the funding would be used in conjunction with the ERDF/ESF contribution (and identifying clear ERDF/ESF outcomes for the funding), and financial and performance targets.
- The Programme Monitoring Committee would make recommendations to Ministers for approval of the outcome agreements. The agreements would be monitored quarterly by the Managing Authority, which would report to the Programme Monitoring Committee on their performance.
- The obligations of the CPPs would be the same as for other project sponsors and subject to the same financial and management controls by the IAB (until June 2012, thereafter the Scottish Government). Within the CPP, there would be a body designated as lead beneficiary to receive awards and be responsible for the financial management, reporting and accounting of expenditure (such as the submission of quarterly claims), although the IABs/Scottish Government would be responsible for project verification (Article 13 checks).

The structure of CPPs and the areas they cover vary considerably, depending on the size and geography of the council area, socio-demographic factors, the local economy and local political priorities. This is reflected in the scope and level of engagement in ERDF/ESF activity undertaken by CPPs.

2.4.2 Lowlands and Uplands Scotland

In LUPS, the shift towards a strategic approach was influenced by the Scottish Government's expectations that in 2007-13 there would be insufficient funding to provide resources on a horizontal basis. Accordingly, urban areas meeting set criteria were identified as eligible; there is no participation by essentially rural CPPs.

At the start of Phase 1, initially 10 areas were identified as eligible and invited to develop an integrated development strategic plan in partnership using both ERDF and ESF resources. The intention was that three areas would be selected on a competitive basis to carry out pilot activity. In the event, the Scottish Government elected to proceed with all 10 proposals. In the interim, a further three local authority areas were determined as eligible and they also participated in Phase 1 but were not required to develop a strategic plan, but proceeded to the development of applications.

The focus of the proposals varied considerably across the CPPs. Some were integrated proposals in the character of Urban II, South Lanarkshire, for example. Others were more focused, for example Dundee, which emphasised employability.

It should be noted that many of the local authorities that were responsible for CPP applications were also Structural Fund beneficiaries in their own capacity.

TABLE 2.1: LUPS CPP PARTNERSHIPS		
Lead CPP applicant	ESF Priorities *	ERDF Priorities *
Aberdeenshire Council	5	
City of Edinburgh Council	1,5	3
Clackmannanshire Council	1,5	3
Dundee City Council	1,5	3
East Ayrshire Council	1,5	3
Falkirk Council	5	
Fife Council	1,5	3
Glasgow City Council	1,5	3
Inverclyde Council	1,5	3
North Ayrshire Council	1,5	3
North Lanarkshire Council	1,5	3
Renfrewshire Council	1,5	3
South Lanarkshire Council	1,5	3
Stirling Council	5	
West Dunbartonshire Council	1,5	3
West Lothian Council	1,5	3
ESF Priority 1: Progressing into employment ESF Priority 5: Strategic Skills Pipeline ERDF Priority 3: Urban regeneration		

Phase 2 in LUPS was marked by the transition to ESF Priority 5 with its focus on establishing a skills pipeline. Use of ERDF was not mandatory. Some Phase 2 ERDF awards were made; some CPPs with unspent ERDF resources from Phase 1 had the eligible spend period extended.

Three further CPPs, Falkirk, Stirling and Aberdeenshire, became involved in Phase 2, but are coordinating ESF projects only.

2.4.3 Highlands and Islands

The approach to CPP strategic activity in Highlands and Islands was distinctive and conditioned by the experience of Community Economic Development in the 2000-06 Programme. CED was seen as having spread resources thinly on unconnected projects. Accordingly, the Scottish Government and HIPP invited CPPs to develop an integrated plan with a linked list of projects.

All seven CPPs were promised access. They were all offered £1.5m towards the plan, and once the plan was approved, the projects were to be fast tracked. Each CPP was required to have an Advisory Group process.

Strong bids came from Orkney (themed on heritage and culture) and Moray (themed on responding to the RAF reduction). However, in Orkney there was a loss of match funding. Elsewhere, the planning approach lacked traction. Nevertheless, plans were approved and 14 ERDF and 5 ESF projects have proceeded. However, this has not had the character of CPP driven strategic activity as was originally intended.

The experience of the Highlands and Islands CPPs was explored in interviews with the Scottish Government and Argyll and Bute CPP. Issues highlighted as constraining strategic activity by CPPs included:

- the limited maturity of the Highlands and Islands CPPs at the time they were invited to develop plans.
- the spatial scale of the CPP areas in Highlands and Islands that stretched the concept of "community".
- the existence of strong community partnerships at a local level.
- competition from LEADER Local Action Groups for the policy space in which CPPs were being encouraged to operate.
- the preference within CPPs to operate through local partnerships and LAGs where possible.

2.5 Global Grants Body

In the LUPS programme, the Managing Authority designated an intermediate body to manage and implement a global grant in the South of Scotland under Priority 4 of the Programme (as defined in Articles 42 and 43 of the General Regulation).

Despite having been reluctant to come together under a single Programme for 2000-06, cooperation in the South of Scotland had gained traction. The area had aspirations to have its own Programme for 2007-13 and had campaigned for a review of the NUTS designation. The GGB was seen as a way of recognising the progress that had been made in the South of Scotland since 2000 and a response to

concern about being squeezed by competition from the rest of rural LUPS. The GGB provided a mechanism to provide confidence on resource availability, and also represented a challenge to identify projects and to plan their timing and sequencing.

Under this arrangement, projects from South of Scotland partners would bid for funding from a dedicated global grants pot for the area within ERDF Priority 4, though they would not be eligible for funding under the remainder of Priority 4, which would only be available to the other eligible areas under Priority 4.

The South of Scotland European Partnership (SoSEP), part of Dumfries & Galloway Council was selected as the Global Grants body.

The key features of the status and governance arrangements for the GGB were described in the LUPS Operational Programme as follows. The designated body would:

- be responsible for supporting project selection, ensuring applicants understand their publicity and information and financial control obligations, and reporting on and managing the global grant. Selection of projects under the global grant would be made through an advisory group (subsequently constituted as the Joint Management Board of the Global Grants Body, including representatives from Dumfries and Galloway Council, Scottish Borders Council and Scottish Enterprise).
- conclude an outcome agreement for three years with the Managing Authority.

As specified in Article 43, the agreement would detail:

- the types of operation to be covered by the global grant;
- the criteria for selecting beneficiaries (to comply fully with Priority 4 selection criteria);
- the rates of assistance from the Funds and the rules governing that assistance, including the use of any interest accruing;
- the arrangements for monitoring, evaluating and ensuring the financial control of the global grant as set out in Article 59, including the arrangements for recovering amounts unduly paid and the presentation of accounts; and
- where applicable and necessary, any use of a financial guarantee, or equivalent facility.

At the start of the three-year period, the outcome agreement would be reviewed by the Programme Monitoring Committee which would make recommendation to Ministers for its approval. Thereafter, the agreement would be formally reviewed on an annual basis by the Managing Authority and the Programme Monitoring Committee for financial and outcome performance, which would also be monitored quarterly by the Managing Authority and the IAB and reported to the Programme Monitoring Committee.

The Global Grants Body was not a fully delegated system. The Scottish Government was involved in the Advisory Group. It didn't have its own procedures.

The mechanism was discontinued in 2011. It is reported that the decision was taken in the context of the Scottish Government making wider changes to implementation, rather than on the basis of the performance of the GGB.

2.6   National Delivery Bodies

The National Delivery Bodies are defined as: the statutory body with responsibility for delivery of Scottish Government national outcomes and objectives. They became involved as Strategic Delivery Mechanisms in the context of the LUPS PMC decision in 2010 to vire all remaining funds from ESF Priorities 1, 2 and 3 into a newly created Priority 5 which would fund the development of transferable skills.

Scottish Government would be looking to partners to deliver relevant skills enabling individuals to access and retain jobs for the future. There would be no overlap with current provision. Applications for funding were expected from CPPs, STUC, SDS and the Scottish Funding Council.

Formed in 2008, Skills Development Scotland (SDS) is the national skills body supporting the people and businesses of Scotland to develop and apply their skills. SDS is a non departmental public body, responding to and delivering the Scottish Government's skills strategies. Having secured ESF support from both the LUPS and H&I programmes since 2008, the introduction of LUPS Priority 5 saw SDS apply for ESF grant of £20.7m, in support of a "Local Training Opportunities" project, aimed at supporting 27,950 beneficiaries under the Local Training Opportunities (L-Tops), Get Ready for Work (GRfW) and Training for Work (TfW) schemes. Delivery is through contracts with Training Providers with provision jointly planned, procured and reviewed in-year with Community Planning Partnerships.

The Scottish Further and Higher Education Funding Council (SFC) is the national, strategic body that is responsible for funding teaching and learning provision, research and other activities in Scotland's 37 colleges and 19 universities and higher education institutions. In the context of Priority 5 the Council developed a national bid involving a total of 35 colleges across Scotland aimed at improving the content and outcomes of local employability development services through the strategic skills pipeline. Some £13.7m of ESF was sought for activity during 2011-13, with an aim of continuing the project in 2013/14.

STUC had run Union Learning projects with ESF support for a decade. These were work-based learning projects. Since 2011, those in the LUPS area have been modified to cohere with the provisions of ESF Priority 5 and deemed strategic activity.

SCVO was invited to become a National Delivery Body, but lack of match funding and the risks associated with Accountable Body status prevented it from proceeding. Instead, it coordinated and facilitated a set of bids from large and specialised NGOs (The Third Sector Consortium) with the intention of stimulating delivery across all of the CPP areas participating in ESF Priority 5. However, applicants who did not have their own match funding had to conclude deals with CPPs on an area-by-area basis.

2.7   Financial and Physical Progress

2.7.1   Funds Under SDM Management

Table 2.2 shows the scale and distribution of Structural Funds resources being managed via Strategic Delivery Mechanisms. Of a total of £199.3m in Grant Awards, just over half was accounted for by CPPs and just over a quarter by SDBs.

TABLE 2.2: FUNDS UNDER SDM MANAGEMENT £M GRANT AWARDS				
	ERDF	**ESF**	**Total**	**%**
SDBs	49.2	6.4	55.6	27.9
GGB	10.3		10.3	5.2
NDBs		31.0	31.0	15.6
LUPS CPPs	16.1	82.6	98.7	49.5
H&I CPPs	2.5	1.2	3.7	1.9
Total	78.1	121.2	199.3	100.0
Source: Scottish Government Eurosys MIS				

To place the role of SDMs in context, as at March 2013, some 31.3% of Scottish Structural Funds grants awards by value had been made to SDMs. For ESF, the figure was 43.8% and for ERDF, 22.1%. As the 2007-13 Programmes moved towards their close, it may be seen that SDMs had become a very important conduit for Structural Funds, particularly as regards ESF.

2.7.2   Financial Progress

In the absence of reliable of data from Eurosys, qualitative assessments of progress were obtained from both SDMs and the Scottish Government. In all cases, the assessments coincide or are reasonably similar.

Of the three SDBs, only HIE is spending to profile. SE and UHI expect to absorb the allocated resources over a longer timescale than originally planned due to the impact of economic conditions on take-up.

Of the three NDBs, STUC and SFC are spending to profile. SDS is endeavouring to absorb the remainder of its allocation through extension of the spend period for projects and reports that the deviation from profile, in part, reflects difficulties in matching the recruiting profile by eligible area.

Eight of thirteen reporting CPPs in LUPS are spending to profile. Of the remainder, most are reasonably close, but one reports up to 15% behind. Experience under ESF Priority 5 is reported to be better than for ESF Priority 1.

In general, the experiences across SDM type are similar. It is not clear that one class is performing significantly better than others.

2.7.3   Physical Progress

Outputs

All three SDBs are expected to deliver all or most of the targeted outputs. HIE is likely to have a slight shortfall in relation to revenue projects and attributes this to unrealistic targets set at the start.

Of the three reporting NDBs, STUC and SFC are on track to achieve their targeted outputs. SDS is likely to get to within 5-10% of target.

Eight of thirteen reporting CPPs in LUPS are expected to meet their output targets, some may do so but over a three year period rather than two. The findings are essentially in line with financial progress.

Results

In general, achievement of results targets is behind achievement of outputs.

Among the SDBs, SE expects the benefits of investment in innovation to take longer to emerge than originally expected. HIE expects to achieve targeted results for capital expenditure but not revenue. Of the SDBs, only UHI is expected to achieve its targeted results.

Of the three reporting NDBs, STUC and SFC are on track to achieve their targeted results. SDS is likely to have a shortfall in relation to some results targets, employment in particular.

Eight of thirteen reporting CPPs in LUPS are expected to meet their results targets, higher level skills and employment results being the main focus of reported shortfalls.

For the most part shortfalls are attributed to economic conditions. However, among the CPPs which are involved in essentially similar activity, variability in performance would also appear to be a factor.

Again, the spread of experiences across SDM type are similar. It is not clear that one class is performing significantly better than others.

3   EVALUATION OBJECTIVES AND METHOD

3.1   General

In this section we detail the SDM evaluation objectives and the research process and methods used to gather the information necessary to conduct the evaluation.

3.2   Evaluation Objectives

The brief for the SDM evaluation, issued to the Consultants prior to commissioning stated that:

"This evaluation will encompass Strategic Delivery Bodies (SDBs), Community Planning Partnerships (CPPs), Global Grant Bodies (GGBs) and National Delivery Bodies.

It will focus on evaluating what has worked well and what hasn't worked so well with a view to making recommendations for the Strategic Delivery Mechanisms in the future Programmes. The key objectives of the evaluation are to:

- *Review the current strategic delivery mechanisms;*
- *Consider the mechanisms proposed by the European Commission;*
- *Consider the LEADER approach;*
- *Consider the potential impact of the CPP and SOA review that is underway;*
- *Provide recommendations on strategic delivery mechanisms for future Structural Funds"*

In response to these objectives the Consultants proposed a five-stage method which was confirmed at the evaluation inception and subsequently implemented to generate this report.

The five-stage evaluation method is summarised in **Figure 3.1**. In the following paragraphs we detail the process and methods of conducting the core evaluation research in the form of:

- Analysis of Programme Management Data held on Eurosys.
- Consultations with SG and Stakeholders.
- Face-to-Face Consultation Programme with SDMs.
- Supplementary Telephone Consultation with SDMs.
- Face-to-Face Consultation Programme with Delivery Partners.
- E-Survey of SDM Delivery Partners.

Figure 3.1: Evaluation Method
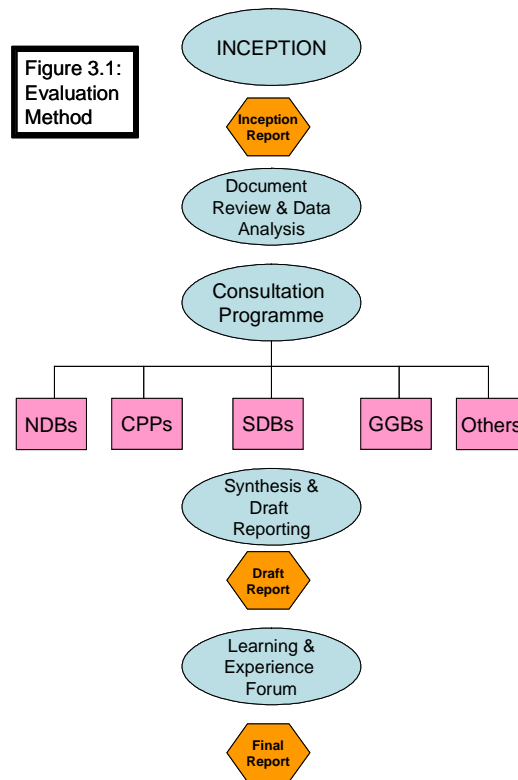
3.3 Analysis of Programme Management Data

Using data extracted from Eurosys, the Consultants prepared an analysis of financial and physical progress to provide background to SDM performance and inform the evaluation research and conclusions.

3.4 Consultations with Scottish Government

During the consultation period a number of face to face and telephone discussions were held between the project team and representatives of the Scottish Government, principally to clarify the processes that led to the identification and formation of the SDMs.

3.5 Face-to-Face Consultation Programme - SDMs

As part of the inception process the SG were provided with a Topic Guide identifying the potential scope of face-to-face consultations with the SDMs. The SG and Evaluation Working Group were provided with an opportunity to comment on the Topic Guide. Following this review the Topic Guide was developed into a Questionnaire which covered the full spectrum of issues identified in the Evaluation Brief, and the Draft Evaluation Framework provided in an annex to that Brief. A copy of the SDM Questionnaire is provided at **Annex 2**.

Details of initial contacts in each of the SDMs were provided by the SG and these were reviewed and amended, where necessary, to ensure that consultees invited to participate in the face to face survey were best placed to provide comment and

insight on SDM engagement and ongoing working with the SG Structural Funds Team.

The Consultants secured face-to-face surveys with a total of 15 SDMs. The Consultations were structured around the Questionnaire but conducted where possible as a wide-ranging dialogue to gain in-depth understanding of the experience of the consultee and their organisation. Inevitably, given the six years which had elapsed since the establishment of the SDMs, we encountered Consultees with varying depths of understanding of the initiation and evolution of the SDMs. Nonetheless, we consider we have gathered, through the SDM face-to-face consultations, a comprehensive record of participants' experiences and associated learning.

All of the Consultations were conducted on a non-attributable basis, to encourage a full and frank exchange of experiences, and consultees were advised of this at the outset of the consultation.

The Consultations were subsequently recorded in a bespoke database designed by the Consultants to facilitate the comparative analysis of responses. The findings of the SDM consultations are presented in **Chapter 4** of this report.

3.6 Telephone Consultations with SDMs

The SDM Telephone Consultations were used to ensure close to universal inclusion of the SDMs in the research programme. The primary contacts provided by the SG were again first contacted to confirm if they, or another representative, were best placed to take part in the consultation. The consultations were then conducted at a pre-arranged time and used the face-to-face questionnaire to guide the discussion. Again consultees were advised that the consultations were being conducted on a non-attributable basis. Responses were added to the bespoke database used to record the face-to-face consultations to allow for comparative assessment across all of the SDMs.

A total of seven SDM telephone consultations were completed.

3.7 Face-to-Face Consultation Programme - SDM Delivery Partners

As part of the inception process the SG were also provided with a Topic Guide identifying the potential scope of face-to-face consultations with SDM Delivery Partners. The SG and Evaluation Working Group were provided with an opportunity to comment on the Delivery Partner Topic Guide. The Topic Guide was then developed into a questionnaire addressing the core issues identified in the Evaluation Brief, but which also explored specific issues relating to individual project management, project administration and Delivery Partners relationships with the SDM. The questionnaire also reflected the wide range of projects and delivery partner organisations to be included in consultations. A copy of the approved Delivery Partner Questionnaire is provided at **Annex 3**.

Delivery Partner contact details were secured from each of the SDMs through the return of a completed template issued by the Consultants in their initial contact with the SDMs. A single Delivery Partner from each SDM was identified by the Consultants for engagement in a face-to-face survey with all of the remaining contacts selected for inclusion in the E-survey.

The Consultants secured face-to-face surveys with a total of 11 Delivery Partner Consultees. The Consultations were structured around the Questionnaire but conducted where possible as a wide-ranging dialogue to gain in depth understanding of the experience of the consultee and their organisation.

All of the Consultations were again conducted on a non-attributable basis, to encourage a full and frank exchange of experiences, and consultees were advised of this at the outset of the consultation.

These Consultations were subsequently recorded as responses within the E-Survey framework by the Consultant conducting the face-to-face consultation. This allowed for the efficient analysis of the Delivery Partner responses to closed questions whilst allowing the consultant to record in-depth responses to the important open questions on experiences, learning and areas for improvement.

3.8 E-Survey of SDM Delivery Partners

An E-survey of Delivery Partners was proposed by the Consultants as the most efficient and effective means of researching the experiences of the large number of potential respondents.

The E-Survey programme was conducted using proprietary web-based survey software (Survey Monkey). The E-Survey questionnaire was developed to replicate the questions in the approved Delivery Partner face-to-face questionnaire to provide for consistent and efficient analysis of all responses from the population of Delivery Partners. The e-survey was circulated to a total of 186 potential respondents – representing all of the partners previously identified by the SDMs with the exception of those who were engaged in a face-to-face survey.

Each recipient received an introductory e-mail from the Consultants, copied to their SDM contact, who was also requested to endorse the survey and encourage a response. This was followed by an email from the Consultants via the web survey host with a direct and unique link to the web-survey for completion on line. The web survey respondents were also advised that their responses would be non-attributable when reported to the SG.

A reminder email was forwarded to those contacts who had not responded or responded only partially to the survey 10 days and 20 days after the initial email. In the interim the Consultants provided ongoing telephone and email support to those contemplating or in the course of completing the web-survey.

At the date of closing the survey a total of 123 responses had been received 65 of which were classified as partial responses. Partial responses occur where the respondent chooses not to respond to every question in the survey. However any responses they do make are recorded by the software and available for analysis.

The findings of the Delivery Partner survey are presented in **Chapter 5** of this report.

4 STRATEGIC DELIVERY MECHANISM CONSULTATION FINDINGS

4.1 Identification and Establishment of SDMs

The two processes (identification in Operational Programmes or in response to LUPS ESF Priority 5) were described in chapter 2. In conducting the consultation it was clear that staff turnover meant that it was often difficult to engage with personnel who had been involved in the formative stages of SDMs. There was also an unexpected lack of documentation regarding the strategic ambitions of the various organisations: whereas it might have been expected that the PMCs would have been presented with a document setting out the aims of the SDMs this does not appear to have always been the case but, rather, the organisations involved proceeded directly to the application process with bids lodged in the Eurosys database.

One of the SG's objectives in opting for the creation of SDMs was that the bodies that were being identified would bring forward genuinely strategic projects or groups of projects and these should not be exposed to the uncertainty of the challenge funding route. In the course of consultation, representatives of various SDMs concurred, feeling that it was appropriate that their organisations had been identified as principal delivery agents for elements of the LUPS and H&I Operational Programmes: some interviewees had been aware of the Hall Aitken study and the Scottish Government's strategic aims. References to the creation of SDMs, either in the Operational Programme documents or in PMC papers, were generally felt to be acceptable although subsequent deficiencies in the provision of detailed guidance were noted (see section 4.2.1).

Although the South of Scotland **GGB** was identified in 2007 in the Operational Programme, the body had a relatively short life, being wound up in 2011. Against this background, there is very little to add about the GGB in the sections that follow.

4.2 Project Development

4.2.1 Guidance and Support

The Scottish Government provided varied levels of guidance to the SDM bodies on their roles, responsibilities and the extent of documentation that would be required in fulfilling the SDM role. It appears that for most the guidance that was received was in the form of National Rules and the Operational Programme. This guidance was seen to be generic to Structural Funds and not specifically targeted at the different SDMs. Guidance was seen to come in stages and to change throughout the programme period; this was particularly true with regard to eligibility criteria. Respondents from H&I reported that brief written guidance formed the basis of negotiated processes and outcomes.

In general SDBs seemed to have had more direct involvement in the development of guidance and some felt that they had been able to negotiate some parts of it into their SDB contract with the PMC, for example how claims were dealt with.

In comparison NDBs did not report that they had been given any specific written guidance. Their information had come through informal meetings and discussions. Indications were given that in some instances guidance was worked out with the PMC.

The initial guidance given to CPPs from Scottish Government seems to have been in the form of National Rules and the Operational Programme. CPPs, in the main, thought that the guidance was too limited particularly in the area of eligibility. ESEP provided some guidance for CPPs, but this was more informal and not given consistently to all CPPs. ESEP was seen by some as a hindrance, whereas HIPP was valued.

Consultees reported that a number of changes and lack of experience of Scottish Government staff was, on occasion, seen to cause inconsistent and conflicting advice being given to SDMs. Consultees were critical of the capacity within SG and lack of interpretation of National Rules. A lack of detailed technical guidance led a number of the CPPs to create an informal network to share knowledge and gain consensus.

Respondents and consultees called for clear, simple and timely guidance from the outset of the next round of Operational Programmes. There was a very clear call for experienced staff to interpret and guide SDMs on eligibility. A request was made that SG should highlight any concerns at the time of application, not once projects are underway.

4.2.2 Strategies and Supporting Documentation

The requirement of an SDM to submit a strategic plan on how it would use Structural Funds in addition to an application varied between delivery bodies. All SDBs were required to submit a strategy; however NDBs report that they were not required to do so. With regard to CPPs the position is mixed: in LUPS the first ten that were in competition were required to submit a plan; LUPS CPPs that subsequently became involved were not required to do so. In H&I all participating CPPs were required to submit a plan.

The evidence for demand for services included in the SDMs strategies was very similar across the board. Evidence for demand was based upon a number of different sources including; evidence based on demand for uptake from existing evaluations of activity; National strategies; Local strategies, particularly Economic Development Strategies; Single Outcome Agreement (SOA) and some bespoke market research was carried out. A range of nationally available data was also used including geographical analysis, Labour Market Intelligence (LMI) and NOMIS. Particularly in LUPS Priority 5, the evidence base from previous projects was used in strategy development. One SDM (HIE) wanted to focus on gaps in the market, to lead, rather than follow demand.

For some CPPs the packaging of projects represented an opportunity for a coherent local strategy. For others, the strategic dimension was diluted, with CPPs simply packaging up what would otherwise have been separate challenge fund bids from partners. In CPPs that developed the pipeline approach consultees thought that this has proved beneficial by reducing duplication and providing a more structured and integrated approach to service provision. Some CPPs considered that the coherence was from perspective of outputs rather than activities which were seen as more a set of individual actions by partners. However when the progress of beneficiaries was traced through the activities, integration was more clearly identifiable. It was seen to be a way to do things that is better for the client.

The introduction of SCVO as a potential NDB created a situation whereby third sector organisations were unsure whether to develop projects under the SCVO "umbrella" or to proceed via the CPP route. Concerns were also raised that the colleges became 'disengaged' from the CPPs as a result of the SFC LUPS Priority 5 bid.

Overall little change was reported with the introduction of Priority 5, with many projects carried on from Priority 1. The focus in some CPPs shifted from low skilled to up-skilling. The ability to work with employed people was seen as positive, however CPPs lost clients due to the introduction of the Work Programme.

4.2.3 Strategic Focus and Added Value

Identifying the key priorities for the CPPs varied by area but the most common ways were in effect a cascade approach from Scottish Government priorities through to SOAs, Economic Development Strategies, existing CPP strategies and in some cases consultation with local business and industry: SOAs were not seen so much as a driver at the time, but have become much more important recently. One CPP conducted a labour market survey and held an internal review of Employability Services. The SDBs and NDBs were slightly different, SE didn't choose its priorities: it felt that Scottish Government gave SE its priorities based on Priority 1 of the Operational Programme. It used source material from existing business plans and evaluations of existing materials. SCVO worked with thematic experts to identify need and to some extent the outcome was a reflection of existing activity.

The majority of SDBs and NDBs thought that they had not been given enough flexibility in determining priorities and allocating resources. SE felt they were not able to be as flexible as they wanted to be to meet market demand in the changing economic circumstances. Others felt 'Scottish Government were too prescriptive in defining the desired outcomes', while another reflected that 'the lack of dedicated match funding conspired against the strategic approach'. On the other hand the CPPs were much happier with the level of flexibility they were given and thought they had 'pretty much total autonomy' with any constraints coming from the European rules.

SDMs reported various ways in which the Structural Funds added value. The most prevalent form of added value reported across the SDMs was volumising activity. There was also seen to be added value in enabling greater partnership working and enabling projects to happen more quickly. For the CPPs Structural Funds enabled the Pipeline approach and extended their reach to target groups that would have otherwise been a low priority. With regard to the NDBs, SCVO argues that 'the voluntary sector adds value through community linkages and its ability to reach hard to help communities' and for UHI Structural Funds were seen as critical to, and at the heart of, the creation of the University.

4.2.4 Horizontal Themes – Inclusion, Equal Opportunities and Sustainability

The Horizontal themes included in the 2007-2013 Programme were Inclusion, Equal Opportunities and Environmental Sustainability and the Operational Programmes make a commitment to their active integration, although Scottish Programmes are distinctive in the UK in setting fewer targets.

All SDMs reported that they were made aware of the need to target particular beneficiaries and this was seen to be central to their bids and the remit of many of the projects funded. Monitoring took place in some SDBs to ensure that project deliverers were hitting their set targets. For some this was necessary due to the changes in the economy and the introduction of the Work Programme where some participants were 'siphoned off' to it.

The vast majority of SDMs were aware of the need to integrate equal opportunities within delivery however there do not appear to have been any targets set, more a

requirement that equal opportunities be taken into account as part of project delivery. Some SDMs did monitor equal opportunities and some carried out Equalities Impact Assessments. Scottish Enterprise and STUC reported that there had been 'no active mainstreaming' or 'requirement to report' to Scottish Government on equal opportunities in this programme period.

There were notable exceptions, however:

- It was the clear impression by one SDB that 'equal opportunities was being played down relative to 2000-2006 Programme'. This SDB had nevertheless operated a more passive model for managing inclusion.
- Another NDB appeared insufficiently sensitive to the need to actively promote equal opportunities noting "LUPS beneficiaries are 60:40 M:F; we can't ask providers to rectify this". Furthermore, the same NDB appeared unaware of the distinctiveness of ESF and, when contracting, the need to ensure that EU policy is sustained at the point of delivery, noting that its DPs "delivered a contract in line with National Rules for the programme involved".

Most SDMs were aware of the need to integrate environmental sustainability into project delivery, but this was seen to be quite hard to implement and to prove in some circumstances, particularly in respect of ESF projects. Examples of integration were an increased use of video conferencing facilities; encourage projects to use public transport; training around the green sector; and increased focus on recycling and then selling items made from the recycled materials.

4.3   Governance and Management Structures

There is a range of governance and management arrangements within the SDMs. Within SDBs and NDBs, there is a tendency to internalise the governance process, with bodies variously describing units consisting of staff with Structural Funds expertise providing "autonomous management", albeit with escalation of large or contentious cases to the organisation's Board for approval (e.g. Scottish Enterprise). In other cases the establishment of "panels" (STUC), or "advisory groups" (SFC), either within the organisation or consisting of organisations within the relevant sector, assisted in the process of identifying and procuring projects. One of the NDBs, Skills Development Scotland, referred to a LUPS-wide Advisory Group that includes other partners, including the CPPs. Conversely an SDB describes "complex" multi-layer internal governance and reporting structures, reporting ultimately to the organisation's Board.

In short, there is not uniform pattern of governance within the SDBs/NDBs but there is a tendency to keep arrangements "in house".

In contrast, the CPPs, not least because of the legislation that established them as Partnerships, have much more broadly based governance arrangements. Against this background, and reflecting the often numerous bodies within the Partnerships and the specialised nature of European funding, CPPs have tended to establish arrangements that delegate decisions on ERDF/ESF bids to sub groups which are constituted to look at a theme which might involve a degree of EU funding support (e.g. Employability, Economic and Learning) or, more specifically, to oversee EU funding arrangements. In one instance a CPP has strengthened governance arrangements by forming a Scrutiny Sub-group that includes representatives from Job Centre Plus, SDS, the Voluntary Sector, the local college and another local authority.

As with the SDBs, there is no uniformity of arrangements but a pattern of governance that normally separates EU funding processes from the broader activities of the Partnership, which often includes a variety of bodies that have no involvement in securing or delivering Structural Fund activity.

In terms of management of Funds, the task is normally carried out by dedicated officers or teams, depending on the scale of activity. Within the SDBs the scale of operation is considerable, with well-resourced dedicated teams in most organisations. The picture in the CPPs is variable, with the number of personnel involved in the Funds ranging from 5 (Glasgow) to less than two FTEs. Below the level of SDMs, the management of individual projects is carried out by delivery partners. In some CPPs the projects are selected by panels that include external organisations (e.g. Job Centre Plus, SDS).

The governance of the relatively short-lived GGB was very much in the hands of officers within Dumfries and Galloway Council and, immediately before the demise of the GGB, ESEP.

Reviewing the comments received from the consultation exercise the majority of respondents from each type of SDM felt that partnership working arrangements are working well, with a good balance between types of organisation. However, there are some nuances to this general picture. In one case the CPP respondent felt that maintaining a small partnership was advantageous in that there were fewer competing agendas to accommodate".

Others alluded to less than harmonious relationships within the partnership, noting:

"some partners are louder than others and there is a bit of infighting".

And in one case there is a perception that *"partners regard the introduction of Priority 5 as a reduction of their (i.e. partners') power and has placed the CPP in the role of paymaster".*

This leads to the issue reported by some CPPs, that partners can not divorce the CPP from the Council. One respondent suggested that the partnership *"has worked well – after complaints to Council leadership"* but there is still not *"not a level playing field – CPP has to take the lead and take ownership for funding and verification".* This view was reflected in the observations by other CPPs that the Council, because of its lead role, has to demonstrate leadership.

Comments from another CPP show that the process is not always Council-dominated – the chairs of that CPP's economic partnership have been drawn from the business community. Conversely another CPP representative suggested that the some private sector delivery partners feel as though they are "outsiders", with the public sector bodies being on the inside track.

Governance arrangements within partnerships are often multi-level, or at least two tiered. In such circumstances the consensus is that "upper level" partnership meetings are generally formal, with agreed terms of reference and operating procedures. Lower level groups are less formal, with a degree of flexibility and accommodation in their operation.

CPP representatives had conflicting views about the integration of SDBs (e.g. SDS) and NDBs (e.g. SCVO) into their governance arrangements: some respondents felt

that there remains room for improvement, with "token" engagement by SDBs/NDBs. Conversely, CPPs are able to play a role in some partnerships convened by other SDBs. For example, a group led by SDS includes some 12 CPPs from LUPS and H&I. Scottish Government officials who are involved in broader (i.e. not exclusively Structural Funds) policy development also attend this group as observers. In another variation, a group of three CPPs has been formed to work together on Youth Employment Scotland.

Despite the varied and sometimes difficult partnership models respondents felt that present arrangements are satisfactory, with a limited number of suggestions for improvement in 2014-20. These tended to focus on a desire to have a clear understanding from the outset of the next programme as to what the Scottish government is expecting of partnerships, with organisations working to a standard partnership agreement if necessary.

4.4   Programme Delivery and Performance

4.4.1   Delivery Arrangements

When it came to activity, SDMs had three options for delivering the services: through their own organisation, through a delivery partner or through a contractor. The majority of SDMs delivered their programmes through partner organisations, seven consultees reported that their whole programme had been delivered this way. UHI delivered almost all of its activity through its own organisation, mostly due to the nature of the work, which was University course development. HIE had a mixture of delivery activity which varied between capital and revenue projects. HIE owns all its capital projects but the work is carried out by contractors. Its revenue projects are delivered mostly though their own organisation, with just under 25% carried out by contractors. The STUC delivers its projects 100% through contractors as *'neither the STUC nor the partner organisations have capacity to deliver directly'*. In the main CPPs deliver almost all their activity through partner organisations. Of the CPPs consulted, only one CPP delivered its whole programme through external contractors. In general most consultees consider that the right balance had been struck between delivery approaches in this programme. Often the decisions taken had been more to do with the best way of delivering the activity, what they are trying to achieve and what the outcomes will be rather than any need for balance. In some areas the decisions that were taken were 'pragmatic' as it was' all they could do at the time'.

4.4.2   Financial Performance

At present just over half the SDMs are spending to profile but in many cases this is a result of significant financial deviations and the extensive use of Notifications of Change, including extensions of the duration of projects to address this. Despite this, it is reported that there is some variation between projects within strategic packages. In these instances flexibility within SDM programmes has allowed re-profiling of funds to address any underspend or increased need. Of the SDMs who are not spending to profile some have reported a big difference between Priority 1 and Priority 5. Two consultees reported that Priority 1 was the biggest area of underspend due, in part, to lack of experience, understanding and early problems with eligibility. Consultees also reported further reasons for underspend including projects being slow to start, delays in commissioning contractors, difficulties with match funding and recruitment of beneficiaries. With the extension in the initial contract from two to three years and the

use of underspend to finance year three, it is expected that the SDMs will deliver the spend required.

There were concerns raised that SG system Eurosys is not able to deal with underspend (**see Annex 4**).

4.4.3 Physical Performance

It appears from consultations that indicators and targets were set by negotiation between the individual SDBs and NDBs and the Scottish Government. For example SE were given a proportion of the Priority 1 resource and Scottish Government wanted them to deliver a commensurate share of the Priority 1 targets. SE ensured that they were comfortable with the level of targets set by Scottish Government before agreeing to them. Conversely the CPPs were given a set of indicators and targets by the Scottish Government from which they were able to choose the most appropriate ones to their Plans.

The majority of Consultees reported that they would deliver their planned outputs. Where the SDMs see the challenges in delivering outputs is mainly in the area of jobs created and, in one instance, turnover. This is considered to be partly due to the high targets set at the beginning of the programme, when the economy was more buoyant. For some, the difficulties arise in the very high targets, which were set 'a bit in the dark', and without the knowledge and experience the consultees have now. Other problems have occurred due to difficulties in recruiting appropriate beneficiaries. Again the extension of the programme from two to three years has helped SDMs meet their original (two year) targets.

In general consultees think that they will deliver the majority of the agreed results. Some of the reasons cited for only partially meeting agreed results are the changes in the economic climate and over ambitious targets. In some instances difficulties have been encountered in capturing statistics on those still in employment after six months, as it can be hard to establish contact with beneficiaries at this point. As with outputs the extension of the programme will help some 'catch up'.

4.5   Monitoring and Reporting

4.5.1 Data Collection, MIS and Tracking

A number of the SDBs and NDBs had monitoring and reporting systems that were compatible with Structural Funds or only needed minor adjustments to make them compatible. This may be due to their longer experience with Structural Funds and being involved in previous programmes. The vast majority of CPPs did not have compatible systems, particularly if they were new to Structural Funds. Some CPPs were able to adapt existing systems but in many cases new systems were purchased to meet the Structural Funds requirements. This was seen positively by some as it highlighted the need to integrate systems. The need to collate data from constituent projects that fall beneath the SDM umbrella was also cited as a problem to be overcome. In summary, monitoring seems to have been more problematic in some SDMs than others.

The most common issue that has arisen in relation to monitoring data is the amount of information that requires to be produced and the amount of time this takes. It was suggested by one consultee that the output and result reporting is treated much less strictly than the financial data and that outputs and results have never been queried.

SDBs with more bespoke MIS systems find it much easier as the system generates the information that is required automatically.

Several respondents commented on weakness and lack of user-friendliness of Eurosys. While the electronic submission of claims was welcomed it was felt by one respondent that all the "fixes" on Eurosys create administrative difficulties, resulting in problems being displaced to the applicants. In consultation some partners have commented that local systems were more suitable to recording strategic activity and often more up to date than Eurosys. The adequacy of Eurosys is discussed further in **Annex 4**.

4.5.2   Financial Systems

From the consultations it is clear that there were a number of systems used when costing projects. For activities that involved volume interventions (training, business support for example) all projects were initially costed by attributing costs to staff salaries, estimates of time spent on the project and apportionment of overheads. Subsequently several organisations employed a simplified costs approach based upon an agreed method for calculating unit costs: an example is the Weighted Student Unit of Measurement System (WSUMS) which was used by SFC agreed in advance with the European Commission. For SDMs that used contractors tenders were asked for with a 60:40 split with regard to price and quality. For capital projects actual costs were used, with tenders being based on industry estimates.

4.5.3   Administrative Effort

The level of administrative effort seems to have varied quite considerably between SDMs. Not all the SDMs are sure of the amount of ERDF/ESF project resources that are absorbed by administrative costs, but generally they are thought to be quite small, between 1 and 5%. For a few the costs were in the region of 10-15% with two consultees reporting that costs may be up to 20%. Where the administrative effort was highest was in relation to gathering evidence for audit: it was reported in the Learning and Experience Forum that, for one project, meeting compliance requirements, identified during audit, triggered costs of 30%. It was noted that Project Officers' administrative time was claimed for through the actual project. A number of consultees reported that costs were absorbed by the administrative lead organisation as they often had staff already carrying out similar work, for example claims processing. It was difficult for many consultees to comment on how this compared to their organisation's other activity but in some cases the claims process and evidencing requirements were seen to be greater, however the introduction of unit costs for some SDMs had made a 'massive difference' in the administrative effort.

4.5.4   Verification and Audit

There have been mixed responses to the verification and audit arrangements in the 2007-2013 Programme. However even for those consultees who had no issues arise through audit, the process itself was seen to be a 'huge volume of work' and 'the lack of a pragmatic and proportionate approach'. For all, verification and audit was highlighted to be very time consuming and often 'not liked by projects, seen to be disproportionate to grant received in some cases'. Other consultees commented that 'audit has had a huge impact on resource'.

A particular issue arose with CPPs, whereby the Commission sought 100% verification checks; 20% was agreed as a compromise. Many CPPs had not anticipated this and either had not been able to gather the necessary information

(including details about numerous small transactions) or had to spend time and effort establishing systems to do so.

Audit is seen by some to take place too late in the process, often after projects are finished. Problems highlighted at audit have held up payments, sometimes by up to two years. Often when Notification of Change (NOCs) for Eurosys are instigated they take a very long time to be implemented and lead to further delays in payments.

The major issue that has been highlighted at audit is the ineligible costs that have been claimed. One consultee reported audit issues relating to 'staff pension costs, which is potentially significant, it is still live and has taken some time to resolve'.

Organisations with a more extensive previous experience of EU funding tend to have solid systems and the knowledge which allows them to pre-empt issues before they arise, but even they have 'felt they have been audited to death'. For those organisations with less experience the audit and verification requirements have had quite a significant impact on staff resource and financial resources as often claims, which turn out to be ineligible, have already been paid out.

Some consultees raised concerns about a 'lack of knowledge and continuity' from Scottish Government auditors.

A request was made to have audit visits earlier in the life of projects to highlight issues at an early stage so that they can be addressed and not continued with for a number of years. It was suggested that the process of audit could be 'a more positive process where advice is given and learning from experience could be passed on'.

4.6   Relationship with Scottish Government Structural Funds Team

Views from respondents about the Team were generally favourable: 19 consultees responded to a question about their organisation's relationship with the team, with 14 describing the relationship in positive terms.

Several respondents described the Team as "helpful" and it was suggested that direct dealings with the Team were preferable to having to involve an IAB "middle man": the opportunity to phone the Team and often get a clear response to a query was seen as particularly welcome.

In terms of payment and audit respondents felt that the Team's willingness to provide swift feedback, thereby not allowing issues to multiply, was welcome. Clarity about the purpose and requirements of audit visit was also commended.

Respondents also felt that the Team's approach towards, and stakeholder engagement in, preparations for the 2014-20 round of programmes was better than had occurred prior to the 2007-13 round.

Against this generally positive background several respondents identified specific aspects of the Team's work that has been less than satisfactory or could be improved in future:

- the high level of turnover of staff and the loss of institutional memory with the demise of ESEP and HIPP was seen as a problem, with a plea for retention of staff during the next programme phase. A related comment is that many officials lack capacity and expertise, particularly in audit and finance.

- the payments process can be slow, with one respondent citing a project which is two claims behind. Another referred to "huge delays in payments".
- there is a lack of consistency in audit findings which, in the view of the respondent, can be open to personal interpretation. There is also felt to be a lack of consistent advice on the eligibility of expenditure.
- Eurosys is considered to be cumbersome and not properly "road tested".

Looking to the future, there was no clear desire to change the role of the Scottish Government but views about the expertise of personnel, as described above, were provided several times. One CPP representative suggested that members of the Structural Funds Team should have "hands on" experience of project design and delivery management.

4.7   Benefits of SDM Approach

Analysis of consultation interviews suggests that the there is a general feeling that the introduction of SDMs has been a positive development. Interviewees variously considered that:

- the emphasis had changed from ad hoc delivery to strategy, thereby eliminating "pet projects" with "money following strategy";
- the EU funding role of CPPs helped to deliver SOA outcomes;
- the strategic allocation of funding was welcomed by one SDB, providing budget assurance, but not leading to economies or reductions in administration; conversely a second SDB considered that its decision to focus on a handful of strategic projects had reduced the administrative burden.
- there has been much more joined up working, with an integrated approach that requires partners to talk to each other, reduces duplication and achieves economies of scale. A by-product of the approach is that it has enabled smaller voluntary groups to be brought into the process. Although SCVO expressed concern about the participation of the voluntary sector under the SDM approach some SDMs felt that it had been positive in enabling smaller organisations to be brought into the process, particularly where they had expertise with a type of intervention or with a particular target group. Moreover, analysis by the CPP network suggests that there has been a significant participation by voluntary and locally-based organisations.
- the introduction of LUPS ESF Priority 5 has been "catalytic" in helping to identify priorities, and reducing (but not completely eliminating) duplication of provision. (another CPP felt that the move to strategic delivery had not been as successful as it should have been – duplication and a confused landscape remain).
- the pipeline approach would be stronger if ERDF could be included.

Some strongly expressed views were less positive:

- it is difficult to create combined projects with SDBs/NDBs because of the "silo structure" of funding that has been created.
- one of the SDBs suggested that the strategic allocation of funding is no guarantee that benefits will be realised and that the challenge fund process facilitates greater responsiveness to a changing economic environment.

5   DELIVERY PARTNER CONSULTATION FINDINGS

5.1   General

The SDM delivery Partners were surveyed using the methods described in Sections 3.7 and 3.8 above. In anticipation of some DPs delivering more than one Project, we asked them to respond to the survey in relation to the single highest value project they were delivering for their SDM. A total of 134 responses achieved from these methods were recorded for analysis, of which 65 were partial responses.

We have provided analysis of **all responses recorded for each question** in the questionnaire, regardless of whether these responses formed part of a full or partial response to the survey. Where analysis is presented the total number of respondents to each question is recorded.

Responses were categorised by SDM type and the response levels are recorded in **Table 5.1**. Web Survey responses record all responses (full and partial). All face- to-face consultations were recorded as full responses.

Table 5.1: Responses to Survey by SDM Type and Survey Method		
SDM Type	No. of Delivery Partner Responses	
	Web Survey	Face to Face
Community Planning Partnership	92	6
National Delivery Body[5]	20	2
Strategic Delivery Body	6	2
GGB	5	-
Totals	123	11

5.2   Context to Selection Of Delivery Partners

Our survey and consultations explored the background to the selection of the respondents to deliver projects for their SDM. We first explored with the DPs the origins of their projects. Their responses are displayed **in Figure 5.1**.

The majority (56%) of respondents stated that their projects were developed in partnership with the SDM, whilst over a quarter of DPs (28%) had independently developed the projects they were delivering. Just over 15% of delivery partners had been selected following response to a tender issued by the SDM.

We asked the DPs if the project they were delivering on behalf of an SDM was a new or continuing project. Of the 82 respondents to this question 51 (62%) described their project as "new" and 31 (38%) as a continuation of a pre-existing project.

Finally we asked the respondents if the project they were delivering for the SDM replaced activity that they might previously have undertaken with funding secured through a direct application for ERDF/ESF. The responses in **Figure 5.2** confirm that 31.5% of projects replaced activity that would have been supported through a direct application.

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[5] NOTE: Skills Development Scotland Delivery Partners were excluded from the e-survey following a request to SG by SDS.

Figure 5.1: Delivery Partner Project Origins (n=71)

56.3 % (40)

15.5 % (11)

28.2 % (20)

as a proposal generated by your organisation?

as a priority identified through a partnership process?

in response to a tender specification issued by the SDM?
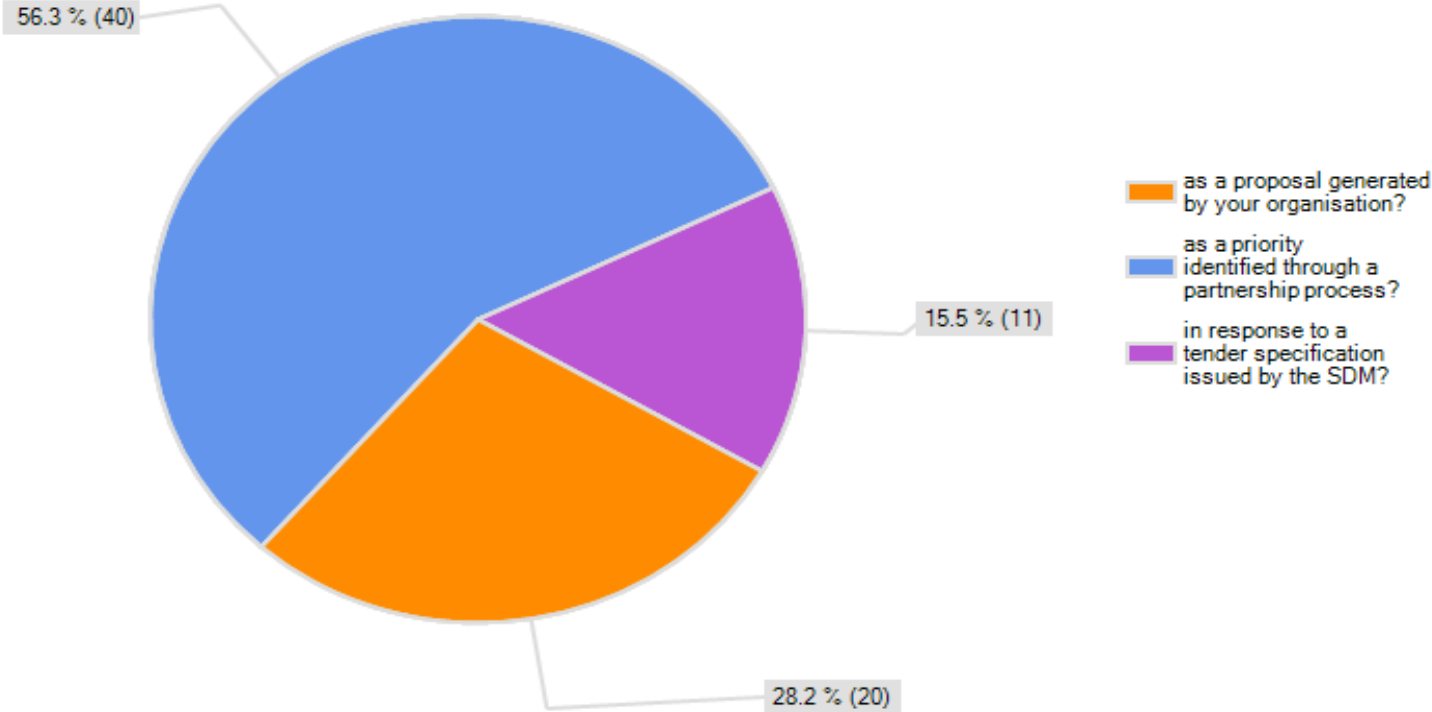
Figure 5.2: Project Replaces Activity Which Would Have Been Subject of Direct Application (n=73)

45.2 % (33)

23.3 % (17)

31.5 % (23)

- Yes
- No
- Don't Know
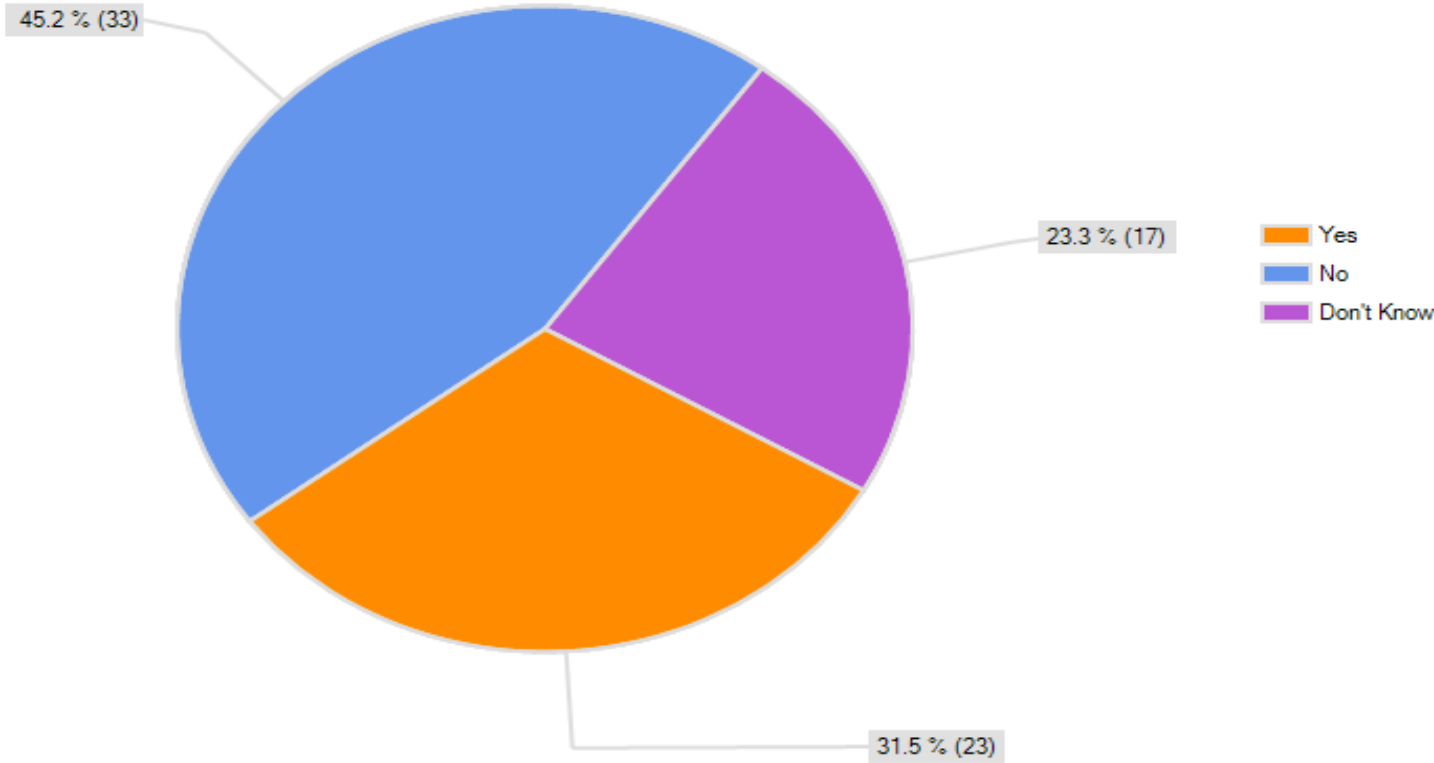
5.3 Project Development

5.3.1 Project Origin and Identification

The analysis presented in **Figure 5.1** demonstrated that the majority of projects delivered by our DP respondents had been developed as part of a partnership process co-ordinated by the SDM. When taken in conjunction with the proportion of projects tendered by SDMs, this suggests that the SDM was influential at a strategic level and had a role in the development of almost three quarters of the DP projects covered by our survey.

5.3.2 Development Guidance and Support

We asked the DPs about the sources of guidance they had accessed in the course of project development, and the forms the guidance had taken. The responses are presented in **Figure 5.3** (page 43 overleaf).

Clearly the DPs accessed guidance from a wide range of sources, with the most frequently accessed source being the local authorities. The survey results also demonstrate the importance of face-to-face, telephone and e-mail contact in disseminating guidance during the project development phase.

We also asked the DPs to assess their overall experience of the guidance they had accessed in supporting the delivery of the Project. Their responses are presented in **Figure 5.4** (Page 44).

This demonstrates generally high levels of satisfaction with the guidance accessed by the DPs – with only 17% reporting detrimental effects on the delivery of projects as a result of deficiencies in guidance.

Finally we asked the DPs for suggestions on how Guidance might be improved. We had comments from 43 respondents and in summary, their observations were:

- important to ensure guidance is clear, comprehensive and available at the outset of the process – some considered guidance to have been inadequate at the outset of the process but to have improved over the period the programme has been in existence.
- an Initial induction and training session for project holders with refresher sessions on an annual basis could be used to advise on any changes and bring any newly appointed project managers up to speed.
- essential to have clear and consistent ***interpretation*** of the guidance – which can be provided by executives with European funding experience in both SDMs and SG.
- would be useful to strengthen communication of the DPs responsibilities when delivering projects using European Funding.

Figure 5.3: Sources and Forms of Guidance Used by DPs in Project Development
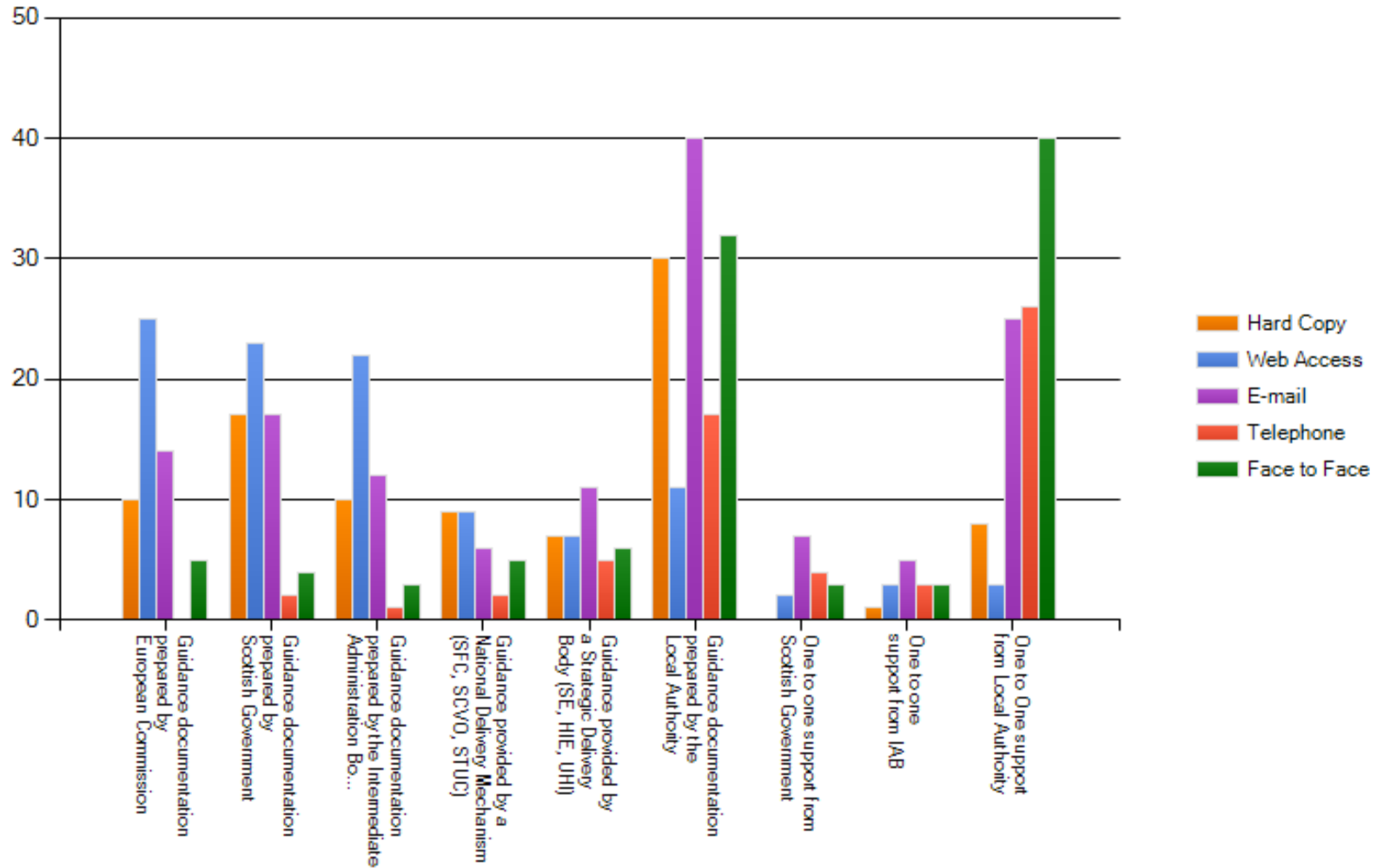
Figure 5.4. Delivery Partner Assessment of Guidance Received

Overall, how would you assess the guidance received to support your organisation in delivering the Project?

- The guidance has been comprehensive and allowed us to resolve any que… — 20.3 %
- The guidance has resolved most queries effectively and efficiently bu… — 63.5 %
- The guidance has not been sufficient in a number of areas and has res… — 12.2 %
- The guidance has been wholly inadequate requiring repeated requests f… — 4.1 %

5.3.3 Project Alignment with Structural Funds Requirements

Our survey asked respondents to identify whether their project had to be modified in any way to conform to the requirements for assistance through the Structural Funds. Only 18% of the 77 respondents to this question considered that such changes had been required.

When asked further about the changes required these related largely to monitoring and auditing requirements and to changes in target beneficiaries to ensure eligibility under ESF national rules.

Overall the responses suggest that projects were closely aligned with Structural Funds requirements and required largely administrative enhancements to ensure compliance and eligibility.

5.3.4 Project Focus and Added Value

The majority of the projects cited by our DP respondents were aimed at reaching young or disadvantaged potential participants in the labour market. Projects were mainly targeted on those furthest from the labour market and facing significant or multiple barriers to gaining employment.

We specifically asked the DPs about the ways in which they had designed projects to add value through the application of Structural Funds, providing a series of suggestions in the form of a multiple choice question. The responses are summarised in **Figure 5.5** (overleaf).

These responses indicate that value was most often added through increasing the number of beneficiaries assisted through projects and by providing a more intensive level of support to beneficiaries. There was also evidence that the availability of Structural Funds allowed projects to happen which might not have been otherwise delivered given competing priorities for the DPs core funding.

Figure 5.5: Sources of Added Value

Which of the following aspects of added value did you consider might be provided through the use of Structural Funds in supporting the Project? (Please tick all that apply)

- Project could happen more quickly — 26.5 %
- Project could assist more potential beneficiaries — 94.1 %
- Project could provide more intensive assistance to the potential bene… — 70.6 %
- Project could be delivered across more of your organisation's operati… — 35.3 %
- Project could be delivered over a longer period — 27.9 %
- Project could happen which was not a priority for other sources of yo… — 38.2 %
- Project could happen which was not a priority for other national sour… — 26.5 %

5.3.4 Horizontal Theme Integration

The DP's were asked if, when developing their projects, they had been made aware of the requirement to target specific groups of beneficiaries, integrate equal opportunities, and promote environmental sustainability.

The responses we received, in relation to each of these Horizontal Themes are summarised in **Table 5.2**.

Table 5.2: Awareness of Horizontal Themes in Advance of Implementation							
	Yes		No		Don't Know		**Totals**	
	No.	%	No.	%	No.	%	No.	%
Target Groups	70	90.9	2	2.6	5	6.5	77	**100.0**
Equal Opportunities	72	93.5	1	1.3	4	5.2	77	**100.0**
Sustainability	**48**	**62.3**	**12**	**15.6**	**17**	**22.1**	**77**	**100.0**

These responses demonstrate particularly high levels of awareness in relation to targeting beneficiaries and equal opportunities. The lower levels of awareness in relation to environmental sustainability probably reflect the more limited scope for its inclusion in the large number of employability projects represented in our survey responses.

When asked how this awareness of ***targeting beneficiary groups*** was translated into project design and delivery we received a range of responses identifying specific beneficiary groups including:

- young unemployed.
- those with physical disabilities.
- mental health clients.
- lone parents.
- long term unemployed.
- prisoners and ex-offenders.
- young carers.
- homeless.

In relation to ***integrating equal opportunities***, many of the DPs made reference to the EO policies of their organisations, which underpinned all operations and were consistent with the requirements of European Programme implementation. Specific reference was also made to:

- provision of marketing and implementation materials in a wide range of formats to suit all potential beneficiaries.
- targeting information and marketing activity on disadvantage areas and groups.
- activities provided at venues with disabled access.
- promoting gender balance in vocational training wherever provision allows.
- full diversity monitoring across all stages of implementation, from marketing through recruitment to recording of outputs and results.
- informing and training implementation staff on all aspects of equality and diversity.

In the case of ***environmental sustainability,*** awareness levels were noticeably lower. Again many of our respondents referred to organisational policies and procedures which focused on promoting sustainable ways of working. Reference was also made to:

- provision of services locally to minimise beneficiary travel.
- use of ICT and conference call facilities to administer and deliver projects.
- reducing use of print media and using social media to promote activities and inform potential and actual beneficiaries.
- incentivising use of public transport and cycling by participants and trainers and discouraging travel by car.

Overall we consider that the horizontal themes have been well integrated in project delivery by the DPs we surveyed. In many cases this reflects the mainstreaming of these policies and their incorporation in both legislation and the organisational operating policies of both SDMs and their DPs.

5.4 Project Delivery and Performance

5.4.1 Delivery Arrangements

As previously illustrated in **Figure 5.1** the majority (56%) of projects reported on in our survey of DPs were developed in conjunction with the SDM. A minority (16%) were delivering projects as a result of winning a tender, with the remaining (28%) developing the project independently from the SDM.

From our consultations we confirmed that the DPs were responsible for delivering services to beneficiaries, recording outputs and results and preparing claims for re-imbursement of expenditure. The DPs were assisted to varying extents in doing so, with a number of SDMs providing access to advice, MIS packages, and staff with European Funding experience.

52 of our respondents provided information on the estimated total cost of the projects they had delivered. The total cost of projects (including European funding) delivered by these DPs was £110m, with an average cost of £2.1m. The Projects costs ranged from £1k to £6m in value.

5.4.2 Financial Performance

We asked all of our respondents to advise on whether their projects were spending to profile. From a total of 76 respondents 85% confirmed they were spending to profile and 15% advised they were not. The main reasons cited for under-spend were delays in projects starting and/or recruitment of staff; over-estimation of the rate of project activity; and delays or changes in accessing other sources of funding.

5.4.2 Beneficiary Targeting and Physical Performance

We first asked the DPs about their success in recruiting the target beneficiaries to their project. Of the 76 who responded 88% confirmed that they had recruited to target. The remaining 12% identified a series of very project-specific reasons as to why they had not done so, and there are no discernable trends which might be interpreted as affecting DPs in general.

We also asked DPs whether they had, or anticipated, generating the results expected for their projects. Of the 76 respondents 75% expected delivery of the planned results and the remaining 25% reported that they would be only partly delivering. The most cited reasons for only partial delivery were difficulties in placing beneficiaries in employment and maintaining retention in employment after 6 months. The primary reason for this was the lack of employment opportunities as a result of the recession, combined with optimistic employment targets, many established when the economy was performing better and recession was not foreseen.

5.5 Project Monitoring and Reporting

5.5.1 Project Performance Indicators, Targets and Data

We first asked the DPs about the assignment of indicators and targets to their projects. Of the 73 respondents, just over half (54%) had assigned these to their projects, based on the indicator set provided as part of the Programme implementation arrangements. The remainder had been set by the SDM.

We also asked which organisation received data on the DPs' project performance. Of our 73 respondents 89% provided data to their SDM with the remaining 11% reporting that they provided data direct to SG.

5.5.2 Management Information Systems (MIS) for Project Monitoring

We asked the DPs if their pre-existing project monitoring systems had been compatible with the monitoring requirements for European funded projects. Of our 76 respondents 59% confirmed this to be the case. The remaining 41% needed to amend the methods and MIS used to monitor and record performance. When asked what they had to do to facilitate compliant monitoring and recording these DPs reported:

- investing in a new dedicated off the shelf MIS solution to record performance – either directly or in conjunction with their SDM.
- employing or re-deploying staff to undertake the administration of project expenditure and output recording.
- developing a new MIS using standard software packages.
- investing in a Customer Relationship Management (CRM) system to manage contact with and track beneficiaries.

Several of our respondents also reported the need to run new MIS in tandem with pre-existing systems required to report to other stakeholders – resulting in duplicate recording and requiring additional administrative time.

We noted that a number of DPs had adopted bespoke MIS solutions including Hanlon and MegaNexus.

5.5.3 Monitoring Data Issues

We asked the DPs if any issues had arisen in the provision of monitoring data in the course of project delivery. Of our 76 respondents to this question 43% confirmed that issues had arisen. The most often cited issues were:

- the requirement for a greater volume and depth of monitoring data than previously experienced by the DP in delivering projects.

- the incompatibility of existing systems with SDM systems and with the monitoring data requirements for European funded projects.
- introducing new MIS and time absorbed by staff gaining experience on these new systems.
- contacting and getting responses from individual beneficiaries to allow population of databases.
- the additional staff time and expense required from finance and other executives to comply with monitoring requirements which was not reimbursed through ESF.
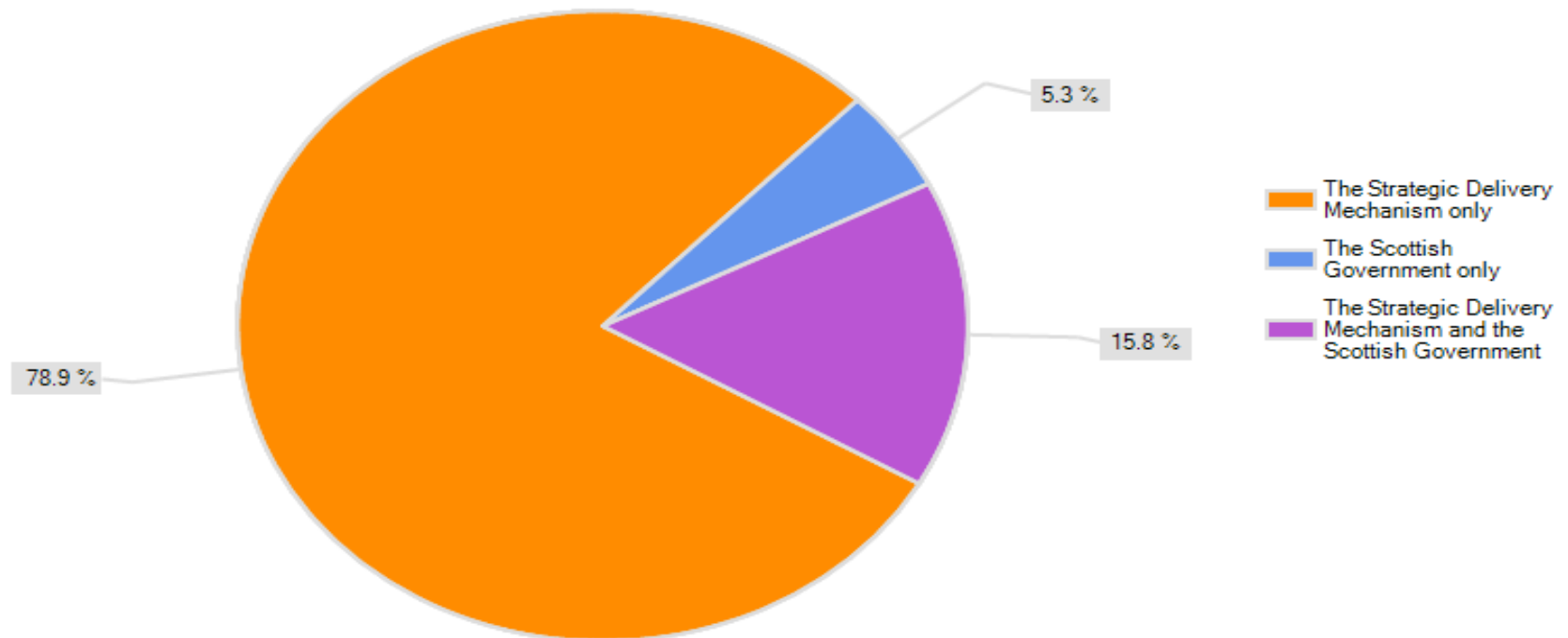
5.5.4 Audit and Verification

DPs were asked if any issues had arisen through audit. The majority (67%) of our 75 respondents confirmed that there had been no specific audit issues. The remaining 33% cited a number of issues, although the majority of these were minor and related to record keeping, eligibility of beneficiaries and eligibility of spend.

Several of the respondents commented that the verification of financial spend was unduly burdensome with 100% verification and a requirement to trail and verify very small amounts of expenditure. This, the DPs suggested, was disproportionate and could involve days and even weeks of admin staff to source and prepare records for verification and audit visits.

5.6   Relationships with Structural Funds Administration

We asked the DPs to identify the extent of their relationships with Structural Funds Administration. The responses from the 75 DPs who answered are presented in **Figure 5.6** (overleaf).

Figure 5.6: Extent of Relationships with Structural Funds Administration (n=75)

- 5.3 %
- 78.9 %
- 15.8 %

Legend:
- The Strategic Delivery Mechanism only
- The Scottish Government only
- The Strategic Delivery Mechanism and the Scottish Government

Most (79%) of the DPs we surveyed had contact only with their SDM. We received comments from 53 of these DPs on the nature of that relationship.

We first asked what aspects of the relationship with the SDM had been good. We received a range of responses which highlighted:

- the timely responsiveness of the SDMs to any communications and queries.
- the provision of support, guidance and assistance when required.
- establishing and building partnership working and relationships with other SDM's DPs.
- representation of the DPs in dealings with the SG.
- providing a governance structure and direction.
- assisting the DPs in understanding and correctly recording monitoring data.

We also asked the DPs to identify the less good aspects of their relationship with the SDMs. The main areas of concern expressed were:

- the lag between claim submission and payment, leading in some cases to cash-flow issues for the DPP.
- the short notice and timescales available to submit claims and back up data.
- the levels of financial reporting and verification required and the associated commitment.
- an apparent lack of influence on SG from the SDMs.

Where DPs also had a relationship with the Scottish Government they also variously assessed this as good, positive, open and beneficial.

Aspects of the relationship which were assessed as good included:

- approachability and efficiency.
- quick provision of advice.
- a desire to promote good practice and make the Programme work as effectively as possible.

Aspects assessed as less good were:

- the focus on financial management, verification and audit.
- a perceived lack of co-ordination of the transfer of administration from the IAB.
- a reactionary approach to issue resolution as opposed to clear guidance and interpretation from the outset of the Programme.

5.7   Internal Project Administration

We asked the DPs if they considered the level of project administrative effort from delivering a project through an SDM varied in relation to what they might have experienced if the project had been delivered through a direct application. The responses from the DPs who responded are illustrated in **Figure 5.7** (overleaf).

The responses suggest that whilst over a third of DPs considered the administrative effort was unchanged from what might have been the case under a direct application, just over half felt the effort was greater and just 12% felt it was lesser.

5.7.1 Reasons for Perceived Increases in Project Administration By DPs

We further explored the opinions of those who thought the effort greater and they expressed a range of reasons as to why this was the case. The most often cited reason was the perceived increase in effort and resource applied to collecting and recording monitoring data. There was also concern at persistent audit and verification of financial expenditure and the administrative burden imposed through 100% verification and the need to retain and present evidence for small levels of project expenditure. Reference was also made to a more protracted claims process and lags in receiving payment. Finally there was referral to increased costs and delays from updating or enhancing MIS to comply with monitoring and reporting requirements.

5.7.2 Reasons for Perceived Decreases in Project Administration by DPs

The main reasons for a perceived reduction in the project administration appeared to be from:
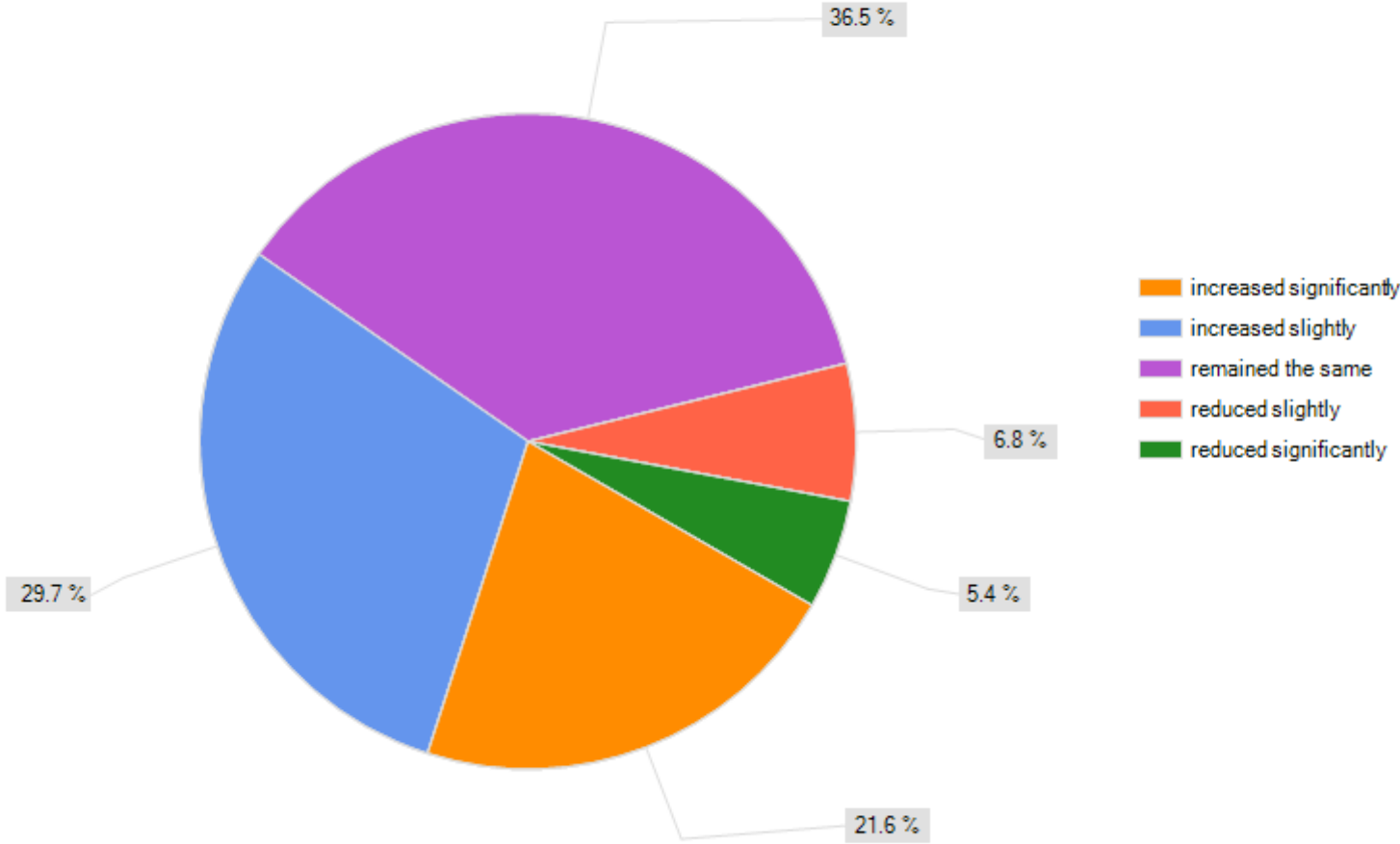
- Instances where the SDM had retained responsibility for collation of monitoring data and associated claims.
- where the DP was acting as a contractor to the SDM and had, through tendering, demonstrated best financial value, requiring only to report to the SDM on completed activity and outcomes.

5.7.3 Other Aspects of Project Administration

We also asked the DPs to advise us, on average, how long it was taking from submission of an ***uncontested claim*** to receipt of payment. We had responses from 55 DPs who advised on a wide variation in the times taken – from one week up to many months and on occasion years. In the absence of further evidence we cannot comment on the wide range of responses – but would suggest that the delays may have been as a result of contested claims (despite the wording of our question) awaiting verification.

Finally the DPs were asked if they were in contact with other organisations implementing projects funded through structural funds, in order to share experiences and good practice. Of the 64 DPs responding, 70% confirmed this was the case.

Figure 5.7: Do you consider that the use of Strategic Delivery Mechanisms has resulted in a level of effort at Project level that has: (n=64)

Legend:
- increased significantly
- increased slightly
- remained the same
- reduced slightly
- reduced significantly

36.5 %
6.8 %
5.4 %
29.7 %
21.6 %

5.8 DP Experiences of Working with an SDM

We gave the DPs an opportunity to comment generally on their overall experience in working with the SDMs, in particular highlighting any issues that they considered had not been covered in the questionnaire.

The comments on the SDM approach were broadly positive and echoed the benefits of partnership working, more effective delivery and strategic cohesion identified for the SDM concept at its inception. This can be illustrated through direct quotation from the surveys:

"In theory it (the SDM model) is an excellent way to go - good for the beneficiaries, much better approach in that DPs are all aware of the landscape. There is also more of a partnership feel".

"Overall a good idea, allows a diverse range of organisations to deliver support projects to some of the most disadvantaged people in Scotland but with much of the hassle of making applications and claims removed as administrative burdens".

"Brings organisations together under P5 and takes away the burden of applying for ESF. Forces people to sit around and compare "who does what". Better than challenge funding in that more coherent and strategic".

"The SDM ensures no duplication occurs and encourages organisations to alter services to fit the greater good - hence more impact".

"It has highlighted the benefits of strong partnership working which has resulted in other non-EU projects being delivered through this relationship".

There were also a series of less positive comments which largely related to the levels of perceived bureaucracy associated with verifying expenditure and recording outputs – which have previously been reported in Section 5.7.1.

A number of suggestions were also made in relation to the future operation of the SDMs, including:

"SDMs could work so much better if they had to adhere to a common set of good practices, especially in the relationships they have with their delivery partners. In the absence of such, a return to challenge funding and dealing directly with Scottish Government would be preferable".

"We recognise that the SDM at local level can be beneficial for some local delivery partners but for nationwide delivery partner organisations it would be beneficial to have a LUPS-wide and a Highland-wide strategic SDM that we could apply to in order to run our programmes efficiently and effectively".

"Putting everything into SDMs is not the solution. Should be challenge funding after top slicing for some SDMs. The challenge funding scoring panels brought a degree of transparency that to an extent is now missing".

6   CONCLUSIONS AND RECOMMENDATIONS

6.1   General

This final chapter frames our research conclusions and recommendations around the eleven key criteria that were identified in the Draft Evaluation Framework (Annex A to the Project Brief). Conclusions are drawn from preceding chapters and recommendations are presented based on information obtained from the consultations, the e-survey, the Learning and Experience Forum and, where relevant, best practice elsewhere. Our recommendations also draw, where appropriate, on:

- the Draft Regulations for the 2014-20 Programme, summarised in the Note at **Annex 1**.
- experience from LEADER implementation arrangements, summarised in **Annex 5**.

6.2   SDM Role, Function and Effectiveness

6.2.1   Conclusions

The basis for the identification and establishment of the various SDMs is documented in Chapter 2. In terms of the appropriateness of each mechanism for the delivery of the Operational Programme outputs, our view is that the SDBs and CPPs were effective, although there was a variation in performance amongst the CPPs. SE and HIE were already strategic in their orientation, working to existing strategies and business plans well aligned with large areas of the OP scope. The CPPs struggled initially with developing an integrated approach to local development but latterly have risen to the challenge of delivering against the narrower objectives of the pipeline approach to employability. The relatively short lifespan of the GGB and the absence of a comparable successor body makes it difficult to draw detailed conclusions about its performance and its potential utility as an SDM.

Amongst the NDBs our view is that SFC and SDS operated efficiently. STUC has a track record of delivery in both LUPS and H&I, and, along with SFC and SDS, would potentially benefit from the ability to deliver nationally in pan-Scotland Programmes. The aspirations for SCVO as an NDB were not met. Its nomination as an NDB resulted in a degree of confusion for third sector bodies that had to choose between working with CPPs or, in effect, developing challenge fund projects under the aegis of SCVO.

Among the continuing SDMs, SDBs, NDBs and CPPs have distinctive purposes and modes of operation. They do not represent alternative models. It is not possible to draw conclusions on their relative merits as mechanisms.

6.2.2   Recommendations

Looking ahead, the terminology should be rationalised at the outset of the Programmes. We recommend that all key agencies, including SE, HIE, UHI, SFC, SDS and CPPs, be termed Lead Partners. Depending on the outcome of the current consultation STUC could also potentially be similarly designated. We feel that, unless SCVO is allocated a substantial block of matched funding and adequate technical assistance support to enable it to function as a co-ordinating body, the

organisation could best function in a consultative capacity or as an information exchange for third sector organisations across the proposed delivery partnerships.

As regards the thematic basis of programmes proposed by the Scottish Government we recommend that the Scottish Government itself should be afforded Strategic Body status and that consideration should also be given to identifying other bodies that could play a strategic role in the proposed "Low carbon, resource efficiency and the environment" theme.

6.3   Guidance and Support

6.3.1   Conclusions

At a strategic level, the issue being investigated was the extent to which the various SDBs delivered activity that was aligned with the Scottish Government's statutory aims, whether CPPs were aligning Structural Funds with key aims based on SOAs, and whether activity co-ordinated by National Delivery Bodies was aligned with key national aims.

Our conclusion is that there is sufficient evidence to show that these requirements were largely met, with SDM organisations operating in an environment where strategic guidance, including aims and objectives, was available. In terms of guidance and support in relation to Structural Funds management, adequate and consistent written information was not available in all cases. This was compounded by the use of standard project applications to prepare umbrella bids.

The limitations of written guidance in the establishment phase needs to be viewed in the context of the very small number of SDBs and NDBs. It is unreasonable to expect that comprehensive, bespoke documentation could be produced for these cases. The largely negotiated process was appropriate and, in the case of the SDBs and most NDBs, was successful.

Following the establishment of SDMs, the guidance provided on issues such as eligibility of projects and/or expenditure was inconsistent and subject to change over time. This was compounded by a lack of continuity in contacts with the Scottish Government Structural Funds and Audit Teams, both of which were subject to high levels of staff turnover.

6.3.2   Recommendations

In the light of the above, we recommend that:

- At the commencement of Operational Programmes, agencies involved in strategic delivery are provided with a template that sets out the information that the Managing Authority will need, to assess each agency's ability to co-ordinate and/or deliver the elements of the Programme for which they have been given responsibility. This should include a brief strategic statement, an indication, where relevant, of the partners to be involved in delivery and identification of key projects with associated information about funding, outputs and timescales. Such information would meet the Scottish Government's proposals, if adopted, of identifying 6 – 10 operations which are most likely, collectively, to have the maximum impact on Europe 2020 targets.

- In addition, at programme outset, a comprehensive guide on all aspects of Programme and project implementation should be published. The DCLG guide for English Programmes would provide a good basis for this[6]. Similarly, DWP has published guidance on ESF in England[7].

- during the implementation phase of Programmes there will be a need to keep guidance up to date, to reflect changing circumstances, including legislative or institutional changes. This should ideally take the form of an e-bulletin.

- key staff in all agencies involved in Programmes, including the Managing Authority, successor strategic delivery mechanisms and delivery partners, should have thorough training in aspects of the Programme and/or project processes for which they are responsible.

- the Managing Authority and key SDM partners should endeavour to minimise staff turnover and maintain "institutional memory".

- training need not be workshop or desk based. Temporary transfer of staff between agencies should be implemented, to help individuals to understand the perspective of staff from originations with which they are engaged.

6.4   Development of the Project

6.4.1   Conclusions

Depending on the remit of the SDM, priority activities were initially identified against a national, regional or sub regional background, as described above. On occasion further context was provided by bespoke analysis of, for example, the local labour market. Projects which had a functional fit with those priorities and which could demonstrably deliver relevant outputs and results were then selected for development either "in house" (some SDBs) or through a partnership process (typically CPPs). In all instances projects would have had to demonstrate added value. Our findings show that consultees and respondents confirmed that support from the Structural Funds represented added value. This could, for example, take the form of increasing the volume of activity, particularly where businesses or ESF beneficiaries were involved, or enabling activity to happen more rapidly or on a larger scale. Qualitative added value such as partnership working and reduction of duplication of provision was also frequently cited, reflecting other studies in this field (e.g. the report published by the Scottish Structural funds Value Added Group, February 2006).

In the process of developing projects, those delivery partners surveyed[8] were made aware of the need to incorporate the horizontal themes into subsequent delivery. While levels of awareness were high there is evidence to suggest that the themes were not treated as proactively as in the previous Programme phase. In our judgement, there is a risk of institutional blindness and failure to ensure that the themes are sustained at the point of delivery, particularly where delivery extends national programmes that are not governed by the same policy objectives and where activity is procured from third party organisations.

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[6] For ERDF see
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/9455/National_ERDF_handbook.pdf
This includes links to more detailed guidance on subjects such as eligibility.
[7] This is the DWP guidance on ESF: http://www.dwp.gov.uk/esf/resources/
[8] SDS sought and were granted by the Scottish Government exclusion from the survey of delivery partners.

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6.4.2 Recommendations

In the light of consultations and experience elsewhere, we recommend that projects should be developed in the context of relevant strategies and on the basis of strong evidence of economic demand; where this is lacking further bespoke research should be carried out. If projects are not selected on the basis of scoring systems, organisations or partnerships should confirm that the project is filling a gap in provision.

The project sponsor should check the eligibility of all elements of the project, seeking advice from an SDM or SG if necessary. Project outcomes and results should be realistic, based on SMART principles.

The project's funding package must be secure and we recommend that forms of co-financing whereby match funding is guaranteed should be explored. Experience of the England ESF co-financing system should be taken into account.

We also recommend that the horizontal themes be given greater prominence and suggest that "theme champions" – a feature of previous Programmes – might be nominated. These would proactively promote the themes and assist in sharing best practice.

In the context of potential national delivery and layers of contracting, action should be taken to ensure that the distinctive EU policy requirements, including the horizontal themes, are understood and integrated at the point of delivery. Wherever possible a *proactive approach* to themes such as equality of opportunity and environmental sustainability should be taken.

6.5 Partnership Approach

6.5.1 Conclusions

Partnership working was common throughout the SDM process: this is evident from the high correlation of engagement between Delivery Partners and SDMs with 71% of delivery partners either developing their projects in partnership with the SDM or responding to an SDM tender. Accordingly, we conclude that SDMs could be influential at a strategic level. In some instances the composition of the partnership was a given, exemplified by the SFC and the FE colleges. In some cases, such as CPPs, an existing partnership was broadened to bring in organisations that could deliver Structural Fund projects. Governance in the SDBs was largely internal, whereas in the CPPs partners were often involved in governance arrangements with regular management meetings. These were frequently referred to in positive terms. It is also clear, however, that the number of CPPs and the sub-groups or committees that they have established stretched the staff resources of agencies such as SDS and SFC who were expected to coordinate with CPPs, with the result that they may not always be represented at CPP meetings.

We note that the Scottish Government keeps the role of CPPs under review. In 2012, a Statement of Ambition for CPPs was published, but it is not clear from our research that this had a major impact on the role of CPPs as regards the Structural Funds. Nevertheless, the six national priorities for SOAs that included economic recovery and growth and employment, helped to shape the types of project supported by the Structural Funds.

CPPs in the LUPS area influenced the selection of projects to support the pipeline approach by reviewing existing provision and, in some cases, inviting organisations to fill gaps. Comments were also received to the effect that design aspects of the Priority 5 pipeline were a constraint and that greater impact might be achieved by integrating ESF with ERDF projects.

While the research findings suggest that the CPP partnerships were happy with their internal arrangements in 2007-13, there is increasing tension between the traditional model of local development partnership and the administrative and audit requirements of the Structural Funds[9]. This is evident in the very low take-up of the Community-led Local Development (CLLD) mechanism in draft Partnership Agreements published to date. We conclude that if Structural Funds are to be used effectively and efficiently in the context of local development in 2014-20, an evolution in partnership will be required.

While we have concluded that the suitability of CLLD as a mechanism for strategic delivery is in doubt, there may be merit in considering use of the Integrated Territorial Development model. However, this will depend upon the scope of the Programmes agreed. The most suitable mechanism for promoting integration of ERDF and ESF type actions may be the flexibility to cross-finance.

6.5.2 Recommendations

While endorsing the Scottish Government's proposals for the greater alignment of Structural Funds with substantial match funding streams, we recommend that parallel steps are taken to uphold the partnership principle.

Rather than the traditional model of partners sitting round the table and deciding how to carve up the funds among themselves, we envisage new partnerships will be consultative in nature, with lead partners holding substantial match funding consulting on how the funds can best be targeted to meet wider partnership aspirations.

The emphasis in the draft Regulations on the Environment, Low Carbon and Resource Efficiency, may necessitate the engagement of partners who are not involved in the current Programmes, and we recommend that the composition of partnerships be assessed once the thematic scope of the new programmes is confirmed.

As regards integrated local development, we recommend that CPPs be afforded the opportunity to be lead partners in relation to their area. Among smaller local authority areas, we recommend that consideration be given to the scope for collaboration and pooling of resources to create adequate capacity and administrative efficiency.

6.6 Outputs and Results

6.6.1 Conclusions

SDMs have become an important conduit for Structural Funds in Scotland accounting for just under £200m or 31.3% of total grant awarded to March 2013. For ESF, the figure was 43.8% and for ERDF, 22.1%.

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[9] Annex 5 identifies similar tensions between the policy objectives of LEADER and the administrative culture of implementation.

The financial and physical performance of activity under the management of SDMs has not proceeded according to planned profiles. Variations are being accommodated by extensive re-profiling and extended timeframes. About half of SDMs and three-quarters of DPs are achieving expenditure profiles, and about a third of SDMs report significant variations in planned results, especially employment. Many SDMs and Delivery Partners identified issues over the volume of monitoring data to be collected and recorded.

Across the range of SDMs the pattern of financial and physical performance is similar. There is no clear indication that one model is associated with superior performance. Among CPPs, of which there is a population engaged in similar activity, there is however some discernable variation in performance.

The targets for outputs and results were derived from the Operational Programmes which were written at a time of relative economic prosperity. As a result, the quantified outputs and results for the Programmes projected the underlying growth trends at that time, which have since been demonstrated as unsustainable. On the basis of comments received this would certainly seem to be the case with regard to the projected numbers of jobs created and increases in business turnover.

The Eurosys MIS holds details of more than 1000 Notifications of Change, many of which address the issues of underperformance. It would have been desirable to compare the rate of financial and physical progress of the SDMs with the rate for Programmes as a whole. This was not possible due to difficulties in securing comprehensive and suitably comparable data from Eurosys.

6.6.2 Recommendations

It is recommended that the next round of Operational Programme documents be quantified after taking into account the lessons that have been learned in the current Programmes. Targets should reflect prevailing economic circumstances, be realistic on the basis of contemporary evidence on effectiveness, and should be defined in readily understood terms to facilitate monitoring and data capture.

The shift to the results-oriented approach, proposed for ERDF, but not ESF, will require central monitoring of results based upon a different concept to that currently in use. ERDF projects should only have to report against outputs. This may afford some simplification.

6.7 Delivery

6.7.1 Conclusions

Arrangements for delivery of projects varied from being "in house" (e.g. SDBs) to tendering (one CPP procured 100% of its delivery). Choices on delivery methods were largely governed by the role of the organisation and the capacity and expertise of staff within it. It was found that where delivery had been procured, the burden of ensuring compliance was reduced.

6.7.2 Recommendations

It is recommended that successor SDMs should assess whether there are advantages, in terms of value for money and simplifying compliance, in adopting

delivery through competitive tendering. This assumes capacity to formulate and manage an effective and defensible procurement process.

In order to attract participation from a wide range of providers, tendering should not be over-prescriptive and risk-averse in specifying the capacity and track-record of prospective providers. This will encourage interest of the private and third sectors, in delivering projects where they possess distinctive capability.

6.8 Data Collection, Management Information Systems & Tracking

6.8.1 Conclusions

Many SDMs and Delivery Partners had to invest in new or modified MIS to facilitate the recording and reporting of financial progress, outputs and results in a form consistent with Structural Funds requirements. Having collated and submitted data several respondents commented that Eurosys did not meet reporting requirements, was not user-friendly and that the information held on the system was sometimes out of date.

6.8.2 Recommendations

We recommend that the Scottish Government commission a survey of Eurosys users to establish where the system is felt to have shortcomings. Consideration should also be given to visiting the Managing Authorities in England and Wales to identify whether aspects of their MIS could be replicated in Scotland. It is understood that the Welsh system is well regarded.

When the detail of the draft Regulations and the scope of the next round of Operational Programmes is finalised we recommend that an assessment be made of the capacity of Eurosys – in its current or modified form – to meet future reporting requirements, with particular regard to recording and reporting results. A note regarding Eurosys from an evaluators' perspective is included at **Annex 4**.

6.9 Financial Systems

6.9.1 Conclusions

A number of systems were used by SDMs when costing projects. These included benchmarking from existing activity; Real Cost Recovery; and Weighted Student Unit of Measurement System (WSUMS). The latter was a significant step towards introducing standardised costs for volume activity and represented a simplification on methods that had operated previously. We identified a degree of support for the adoption of simplified cost models. However, the process of establishing and agreeing unit costs would require the commitment of time, in advance, by partners involved in designing, delivering and funding projects.

6.9.2 Recommendations

We recommend that the Scottish Government's proposals for the simplification of costing options for projects that involve funding multiple beneficiaries (e.g. training, business support) be supported. This movement from repayment of actual costs incurred, to simplified funding models, including unit costs, will link payment to outcomes and reduce the amount of detailed record keeping previously required of by Delivery partners.

6.10 Verification and Audit

6.10.1 Conclusions

Many SDMs and Delivery Partners view verification and audit as disproportionate, time-consuming and resource-intensive. This is despite the Commission relaxing its view on the volume of transactions to be audited. It was noted that the claiming of ineligible costs and beneficiaries are the most often reported verification and audit issues.

6.10.2 Recommendations

It is recommended that systems are strengthened (a) to ensure that existing and future personnel involved in preparing applications and claims are adequately trained in eligibility and other rules governing the Structural Funds and (b) that common audit findings are circulated around the Scottish Structural Funds partnerships to prevent widespread recurrence of the same issues.

6.11 Value for Money

6.11.1 Conclusions

Some evidence emerges from the research which indicates that aspects of the use of SDMs contributed to improved value for money. Examples include the greater synergy achieved with Scottish Government priorities, reduction in duplication of activity and a willingness within partnerships to share experiences and best practice.

It is less clear that the use of SDMs resulted in reduced administrative costs. The use of delegated systems results in costs being absorbed at different levels in the system and being moved around the system. Without micro-accounting at all levels it is not possible to draw conclusions on the net effect.

Moreover SDMs were introduced against a background of increasing administrative costs of achieving compliance, although this was not specific to SDMs.

One consultee reported costs as high as 30% for projects involving a very large number of transactions. More commonly, SDMs and DPs reported administrative costs were below 5% of total expenditure, but these costs may be additive and exclude Scottish Government costs.

6.11.2 Recommendations

We recommend that future delivery arrangements build on the achievements of the SDM model and believe that, if recommendations set out under previous headings are implemented, including simplified cost methodologies and contracting, greater value for money should be secured.

6.12 Scottish Government

6.12.1 Conclusions

Overall, consultees and respondents were generally positive about their working relationships with the Scottish Government. Areas of dissatisfaction are mainly

concerned with staff turnover, inconsistency in interpretation of eligibility of projects or expenditure, delays in payments and perceived over-administration of claims, payments and audit.

The SG is proposing a form of strategic delivery for the forthcoming Programmes and it is our understanding that partners will not be averse to this, seeing the SDM approach as a means of encouraging partnership working, improving strategic cohesion and providing for more effective delivery.

6.12.2 Recommendations

Several of our previous recommendations involve, or have a bearing on the operation of, the Scottish Government's Structural Funds Team. In broad terms we consider that the most important messages are about staff retention and expertise, maintaining institutional memory, the need for adequate and consistent guidance and a willingness to assess the perceived shortcomings of Eurosys. A specific recommendation regarding staff is that consideration should be given to short term exchanges of staff between SG and partner organisations.

REPORT
ANNEXES

ANNEX 1

Note regarding the Draft Regulations, 2014-20

Annex 1: Note regarding the Draft Regulations, 2014-20

Introduction

The brief for this report required recommendations on strategic delivery mechanisms for future European Programmes and the report has therefore been developed in the context of the Commission's draft proposals for the Funds after 2014.[10]

The Draft Regulations

The package of draft Regulations includes a Common Provisions Regulation, setting out principles for all Funds, supported by individual Regulations for each fund. The Regulations have been developed in the context of the Europe 2020 Strategy and envisage a higher level of thematic concentration that has obtained hitherto. Eleven thematic objectives are therefore identified:

> (1) strengthening research, technological development and innovation;
> (2) enhancing access to, and use and quality of, information and communication technologies;
> (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF);
> (4) supporting the shift towards a low-carbon economy in all sectors;
> (5) promoting climate change adaptation, risk prevention and management;
> (6) protecting the environment and promoting resource efficiency;
> (7) promoting sustainable transport and removing bottlenecks in key network infrastructures;
> (8) promoting employment and supporting labour mobility;
> (9) promoting social inclusion and combating poverty;
> (10) investing in education, skills and lifelong learning;
> (11) enhancing institutional capacity and an efficient public administration

The scope and priorities of Operational Programmes will be selected from these objectives.

The draft Regulations also make provision a GDP per capita between 75% and 90% of the EU-27 average to be designated as Transition Regions; Highlands and Islands falls into this category and as such will mean that the area will benefit from higher intervention rate levels.

Programme delivery

The aspects of the Regulations that are of greatest relevance to this report are those dealing with new options for Programme delivery, namely Joint Action Plans (JAPs), Integrated Territorial investments (ITIs) and Community Led Local Development (CLLD).

Joint Action Plans are to be agreed between the Member State and the Commission. The Plan will consist of a group of projects, with public sector support being a minimum of €10m or 20% of the public sector contribution to an Operational Programme. The plan will be defined and managed in relation to the agreed outputs and results. In agreeing the plan an organisation will be identified to co-ordinate and monitor its delivery, and take overall financial responsibility – effectively an accountable body on behalf of all organisations involved in the plan.

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[10] The Commission's draft legislative texts, with explanatory factsheets on ITIs, CLLD, Simplification and other topics is at http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm

Integrated Territorial Investments are envisaged where a strategy for an urban area or another defined area lends itself to an integrated approach potentially requiring investments from more than one Operational Programme priority, or from more than one Operational Programme. Management of an ITI may be devolved by the Managing Authority to intermediary bodies, including local authorities, regional development bodies or non-governmental organisations. The Commission envisages that ITIs will be particularly appropriate in the context of sustainable urban development.

Community Led Local Development takes as its basis the Local Action Group (LAG) model that has been developed under LEADER. However, whereas LEADER was a rural initiative CLLD provides an opportunity for communities in other environments, including urban, to engage in regeneration and development activity. CLLD is a bottom-up approach, with a LAG determining the content of a local development strategy and the operations financed under it. Moreover, while LEADER LAGs disbursed funds from EAFRD, CLLD provides an opportunity to utilise other Funds, including ERDF and ESF, to achieve identified objectives.

Simplification

Throughout the process of preparing this report many consultees and respondents have commented that the Structural Funds are overly complex, bringing a considerable administrative burden. The Commission, too, has recognised this and the draft Common Provisions Regulation includes proposals to simplify the aspects of the Funds. Emphasis is placed on measures to ensure that administrative costs are proportionate and that 'red tape' for beneficiaries is cut. Another aim is to harmonise, as far as possible, the rules applicable for all Funds. In addition – and relevant in the light of comments received during the consultation process, simplified costs options, such as standard scales of unit costs and lump sums, are proposed.

ANNEX 2

SDM Questionnaire

Strategic Delivery Mechanisms Questionnaire

Organisation

Interviewee

SDM Type

CPP	
GGB	
SDB	
NDB	

1.   Establishment

1.1. What was the background to your organisation being asked to take on responsibility for delegated implementation of Structural Funds in 2007-13?

1.2. When (year) did you become aware of this proposal?

1.3. **FOR CPP and GGB ONLY** What were the implications for local partnership?

2   Guidance

2.1. Did your organisation receive guidance from the Scottish Government on its requirements??	Yes	
	No	

If YES:
What forms did the guidance take?
In what areas, if any, did the guidance prove to be problematic?
In what ways, if any, could guidance be improved for 2014-20?

3   Strategic Focus and Added Value

3.1. Was your organisation required to submit a strategic plan on how it would use and manage Structural Funds in addition to submitting applications for ERDF/ ESF funding?	Yes	
	No	

3.2. How did you identify the key priority activities to be supported by Structural Funds?

Allow free response then probe (as appropriate) on the relative role of:
- the scope of the ERDF / ESF Operational Programme?
- Scottish Government Priorities?
- **FOR CPP / GGB ONLY**, SOA outcomes?

3.3. Has sufficient autonomy and flexibility been provided in determining priorities and allocating resources?	Yes	
	No	

If NO, what issues have arisen?

3.4. What evidence of demand (economic / labour market / national) did you base your assessment on?

| 3.5. Did you examine the potential for Structural Funds to add value / deliver additional benefits (e.g. by volumising activity, bringing forward activity in time, by supporting activities that are a low priority for national resources)? | Yes | |
| | No | |

If YES, What prospective added value / additional benefits did you identify?

3.6. **FOR GGB ONLY** What particular benefits were expected from the Global Grants Mechanism?

3.6. **FOR CPP and GGB ONLY** To what extent did the package of projects represent a coherent local strategy?

To what extent did this change with the shift to ESF Priority 5?

3.7. In managing implementation, were you made aware of the need to:

• target particular beneficiaries?	Yes	
	No	
	Don't Know	
• integrate equal of opportunities?	Yes	
	No	
	Don't Know	
• Integrate environmental sustainability?	Yes	
	No	
	Don't Know	

If Yes: What steps have you taken to ensure that across the activity supported	
relevant groups are targeted?	
equal opportunities is integrated in delivery?	
environmental sustainability is integrated in delivery?	

4 Governance Arrangements and Partnership

4.1. What are the governance and management arrangements for your organisation's delegated implementation of Structural Funds in 2007-13?

4.2 Are partner organisations involved in governance and management?	Yes	
	No	

If YES, has there been a balance found between sufficient representation/inclusion and manageable size of partners? (e.g. too many voices at the table)?

If YES, what is your opinion on working arrangements in the partnership in terms of formality / flexibility?

If YES, what is your opinion on working arrangements in the partnership in terms of providing an equal playing field?

4.3. **IN LUPS ONLY** What links have been established between CPPs and other SDMs in the context of the shift to ESF Priority 5?

In what ways has activity been aligned to promote complementarity / eliminate duplication as part of the pipeline approach?

4.4. How could governance arrangements be improved for 2014-20?

5 Delivery

5.1. In terms of financial scale, what is the approximate percentage of activity that is delivered on the ground:

by your organisation directly	%
by partner organisations	%
by a contractor	%

5.2. In retrospect, was the balance right; how could it be improved?

6   Performance in Financial Delivery

6.1. Are your ERDF/ESF projects spending to profile?

	Tick
Yes	
No	

If no, how far behind are you and what are the reasons for this?

6.2. How has activity supported in your ERDF/ESF projects been costed?

Were costing systems used; how effective were they?

6.3. What percentage of ERDF/ESF project resources has been absorbed by administrative costs?

	%

How does this compare with your organisation's other activity?

7   **Performance in Physical Delivery**

7.1. Do you now expect that your ERDF/ESF projects will deliver the planned outputs ?

		Tick
	Yes	
	Only partly	

If only partly, what outputs are you having difficulty in reaching?

7.2. Do you now expect that your ERDF/ESF projects will deliver the planned results ?

		Tick
	Yes	
	Only partly	

If only partly, what results are you having difficulty in reaching?

7.3. In retrospect, was the planned balance of activity right; was it changed; should it be changed in future?

8   Monitoring and Reporting

8.1 Were the performance indicators and targets assigned to your ERDF/ESF projects by:		Tick
	your organisation?	
	The Scottish Government?	

8.2 Were the monitoring requirements for Structural Funds compatible with your organisation's existing systems?		Tick
	Yes	
	No	

If No, what additional requirements have you had to meet?

8.3 Have any issues arisen in relation to the provision of monitoring data?		Tick
	Yes	
	No	

If Yes, what issues were these, how serious were they and have they been overcome?

8.4 Have any issues arisen through audit?		Tick
	Yes	
	No	

If Yes, what issues were these, how serious were they and how were they resolved?

9 Relationship with Scottish Government Structural Funds Administration

9.1. How would you describe your organisation's relationship with the Scottish Government Structural Funds administration?

What aspects of Scottish Government Structural Funds administration in the current Programme period do you consider to have been good;

less good?

10 Perceptions of SDMs Approach

10.1. What did you perceive to be the potential benefits of delegated implementation to delivery bodies

Allow free response then probe on:
- greater levels of synergy with Scottish Government priorities?
- more strategically coherent delivery?
- reduced duplication of activity?
- better value for money?

To what extent do you consider that these benefits have actually been realised?

10.2   Do you have any other general comments you would like to make about the use of Strategic Delivery Mechanisms?

ANNEX 3

Delivery Partner
Questionnaire

Delivery Partner Questionnaire

Organisation

Interviewee

1 Context

1.1 Can you confirm for me which of the Strategic Delivery Mechanisms your project relates to:	A **Community Planning Partnership**	
	A **Strategic Delivery Body** (i.e. Scottish Enterprise, Highlands and Islands Enterprise, University	
	The **Global Grants Body** (limited to the South of Scotland)	
	A **National Delivery Body** (i.e. The Scottish Government, SDS, SFHFC, STUC, SCVO (Third Sector Consortium)	

1.2 Can you clarify for me your role	I am a Project Manager inside the SDM (i.e. internal project delivery).	
	I am a Project Manager in an external organisation that is in partnership with the SDM.	
	I am a Project Manager in an external organisation that is a contractor to the SDM.	

2 The Project

2.1. Can you briefly outline for me:
- the nature of your project.
- the targeted beneficiaries.
- its financial scale.

Nature
Targeted Beneficiaries
Financial Scale

2.2 How was the focus of the project you are managing determined?	• as a proposal generated by your organisation?	
	• as a priority identified through a partnership process?	
	• in response to a tender specification issued by the SDM?	
	• other?	

If other, please give details

| 2.3 Is this a new project or the continuation of a past project? | New Project | |
| | Continuation | |

If a continuation, in what ways, if any, is the project different from its predecessor, and why were these changes made?

| 2.4 Did your project have to be modified in any way to conform with the requirements of ERDF / ESF funding? | Yes | |
| | No | |

If Yes, In what ways did it need to be modified?

2.5. In developing the project, were you made aware of the need to:

• demonstrate added value?	Yes	
	No	
	Don't Know	
• target particular beneficiaries?	Yes	
	No	
	Don't Know	
• integrate equal of opportunities?	Yes	
	No	
	Don't Know	
• Integrate environmental sustainability?	Yes	
	No	
	Don't Know	

If Yes:	
what is the nature of the value added represented by your project?	
what are the specific target groups?	
how has equal opportunities been integrated in delivery?	
how has environmental sustainability been integrated in delivery?	

| 2.6. Did you receive guidance on your role and responsibilities in developing and delivering projects? | From the Scottish Government | |
| | From the SDM | |

| If received guidance: |
| What forms did the guidance take? |
| |

| In what areas, if any, did the guidance prove to be problematic? |
| |

| In what ways, if any, could guidance be improved for 2014-20? |
| |

3   Performance in Delivery

3.1. Is your project spending to profile?		Tick
	Yes	
	No	

If no, how far behind are you and what are the reasons for this?

3.2. Are you managing to recruit the targeted profile of beneficiaries?		Tick
	Yes	
	Only partly	

If only partly, what target groups are you having difficulty in reaching?

3.3. Do you now expect that the project will deliver the planned results ?		Tick
	Yes	
	Only partly	

If only partly, what results are you having difficulty in reaching?

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4   Monitoring and Reporting

4.1 Were the performance indicators and targets assigned to your project by:

your organisation?	
the SDM?	
The Scottish Government?	

4.2 Do you provide monitoring data to:

the SDM?	
The Scottish Government?	

4.3 Were the monitoring requirements for Structural Funds compatible with your organisation's existing systems?

	Tick
Yes	
No	

If No, what additional requirements have you had to meet?

4.4 Have any issues arisen in relation to the provision of monitoring data?

	Tick
Yes	
No	

If Yes, what issues were these, how serious were they and have they been overcome?

4.5 Have any issues arisen through audit?		Tick
	Yes	
	No	

If Yes, what issues were these, how serious were they and how were they resolved?

5 Relationship with Structural Funds Administration

5.1. As part of your project, does your organisation have a direct relationship with:	the SDM *only*?	
	the SDM *and* the Scottish Government?	

Where appropriate:
How would you describe your organisation's relationship with the SDM administration?

What aspects of the SDM administration in the current Programme period do you consider to have been good; less good?

How would you describe your organisation's relationship with the Scottish Government Structural Funds administration?

What aspects of Scottish Government Structural Funds and/or CPP administration in the current Programme period do you consider to have been good; less good?

5.2. How many weeks are payments taking from submission of an uncontested claim?

6 Administrative Effort

6.1. Does this project undertaken through the SDM replace activity that would previously have been the subject of a direct application for ERDF / ESF funding made by your organisation?	Yes	
	No	
	Don't Know	

If Yes, what do you consider to be the advantages of delivery on behalf of the SDM.

If Yes, what do you consider to be the disadvantages of delivery on behalf of the SDM.

6.2. Do you consider that the use of Strategic Delivery Mechanisms has resulted in a level of effort at project level that has:

• increased significantly	
• increased slightly	
• remained the same	
• reduced slightly	
• reduced significantly	

If increased significantly / slightly, why do you say this?

If reduced slightly or significantly, how do you think this will come about?

		Tick
6.3: Do you have any contact with other organisations that are implementing Structural Funds, in order to share experiences, good practice?	Yes	
	No	

7 General Remarks

Do you have any other general comments you would like to make about the use of Strategic Delivery Mechanisms?

Annex 4:

Issues with the Eurosys Management Information System

Issues with the Eurosys Management Information System

It had been proposed that the evaluation should include analysis of financial and physical progress data from the Scottish Government management information system, Eurosys. In the event it became apparent that the available data would not be reliable for this purpose. From information provided by Scottish Government and SDMs, the main issues appear to be:

- currency of data. At the time of the SDM evaluation a considerable number of projects were awaiting audit approval with the result that data in the final claims were not entered on the system. Delay in processing payments and, in particular in audit approval, result in Eurosys systematically under-recording progress.
- inflexibility of the Eurosys system which will not accept some times of transaction. For example, it was reported that SDMs were having to mis-report recipient types in order to complete claims, but with consequent distortion to management data; others reported an inability of Eurosys to accommodate underspend.

Almost all evaluation of Structural Funds Programmes makes use of Programme management data relating to financial and physical progress. Beyond the issue of data currency, there are a number of features of the Eurosys system that are unsympathetic to evaluation needs. It is desirable that these should be addressed in any revision of the MIS for 2014-20.

At present it is not possible to produce custom reports for groups of projects or groups of beneficiaries unless these correspond to categories already set within the system. It would be helpful if the facility were available to "tag" individual projects and to compile a report based on tagged projects. This would, for example, enable reports to be produced on financial and physical progress of particular SDMs without transcribing data on a project-by-project basis.

At the present time, application of the Notification of Change process results in changes to the contracted funds, outputs and results on Eurosys. As a result, deviations in planned performance are cleansed from the system. From an evaluation perspective, this grossly distorts information on the extent to which project performance has changed from what was originally proposed. Accordingly, it is desirable that in future, the original targets are retained in the data matrix as well as the agreed revisions.

Every database contains a data matrix like a spreadsheet. However, the design of many database tools limits the extent to which the data matrix can be accessed. It would be helpful if future Scottish Government MIS have the facility to download the overall data matrix into Excel or SPSS. This would provide considerable flexibility in undertaking ad hoc and custom analyses.

Annex 5

Experience from LEADER Implementation Arrangements

Preface

The following paper has been prepared by John Grieve, prominent authority on LEADER and author of the EC Guidance on Community-led Local Development (CLLD). It presents a personal perspective on the utility of the LEADER approach and the implementation challenges it has experienced in the 2007-13 period.

LEADER: a Development Approach, not a Delivery Scheme

General

As LEADER nears the end of its fourth and what in many respects may be considered its most challenging implementation period questions arise regarding what the approach has proved and the extent of it wider applicability. Originally conceived as a laboratory for rural development is the experiment is now over? Has mainstreaming proved to be a bridge too far, a mission impossible or does the experience actually validate the original need and rationale? Does LEADER add value, does it reach places which other approaches cannot reach and achieve outcomes which others cannot, improve community participation and strengthen local governance?

With the delivery challenges which mainstreaming has presented and the advent of Community-led Local Development under the Common Strategic Framework (CSF) LEADER has never been under more scrutiny than at present. Much research has been undertaken in recent years involving academics, evaluators, practitioners, Managing Authorities (MA), Paying Agencies (PA), auditors and various networks, all of which have some bearing on the questions above. Selected EU level examples which have informed the development of the proposed approach and this paper include:

- The European Court of Auditors Special Report into LEADER.
- The EU Leader+ ex post evaluation.
- Four DG Agri/European Network for Rural Development (ENRD) LEADER focus groups.
- The DG Agri/ENRD Thematic Working Group on delivery mechanisms.
- The European Evaluation Network for Rural Developments work on assessing the impact of LEADER.
- The work of the EU LEADER Subcommittee.
- The 2013 pan EU LEADER Event involving over 300 LEADER and Fisheries Local Action Groups (LAGs and FLAGs).
- Evidence from the Mid Term Evaluations of the 2007 – 2013 RDPs.
- The EC's work on CLLD guidance.

In the following sections we briefly consider LEADER's origins, objectives and evolution; the challenges posed by so called 'mainstreaming'; what LEADER delivers and some thoughts for the way ahead.

The Origins, Objectives, History and Progression of the LEADER Approach

The LEADER approach originated in the early 1990s as part of a wider move away from the conventional top-down approach to the delivery of support to the agricultural sector, to focus on a wider rural development approach involving local actors in the development of their own communities. It was what was then known as a European 'Community Initiative', experimental approaches to different aspects of development sitting alongside the mainstream Structural Funds programmes. LEADER was introduced as an 'accompanying measure' to the CAP. As a Community Initiative it had its own regulation, PMC, programming document and implementation arrangements.

LEADER was introduced as a territorial, bottom-up and partnership based approach to involving communities in contributing to their own improvement and enhancing the development potential of those local rural areas. This involved drawing on the local populations' initiative and skills, promoting and supporting their acquisition of know-how and pursuing local development in an integrated way. Transferring or disseminating this know-how to other rural areas was designed in as part of this process. Beneficiaries moved from being viewed as recipients of support to becoming active as architects and actors in effecting change, development 'done by' rather than 'done to' the rural communities involved.

LEADER was concerned with finding new solutions and developing innovative ways of doing things. In the first iteration of LEADER (1991-93), the main innovation lay in the introduction of the approach itself as an experiment in rural development. Under LEADER II (1994–1999) the LEADER approach became more widely applied moving to act as 'a laboratory' with the pursuit of innovation in the pilot actions or projects supported as well as through the method itself. The third iteration, Leader + (2000-2006) saw the area and number of LAGs again expanded, it was no longer restricted to disadvantaged areas. The LEADER approach was said to have entered its maturity phase with the introduction of a far stronger focus on LAGs identifying and addressing local needs and solutions through the preparation and delivery of Local Development Strategies. Networking and transnational cooperation was strengthened.

For the current period (2007–2013) LEADER has been 'mainstreamed' that is to say integrated into the Rural Development Programmes as a complementary methodology to contribute to the objectives of the three 'mainstream' Axes of the policy through Local Development Strategies. There are no longer specific LEADER programmes; the delivery system now sits within the RDP structure.

Not only has the method and its implementation evolved, so too has the breadth of its application. The first two generations, LEADER, and LEADER II were tied to the Objective 1 and Objective 5b Structural Fund designations of rural disadvantage. Since Leader+ the approach has been applicable to all rural areas which together with the enlargement of the EU and its rural territories has seen a massive expansion in the number of LEADER groups (217 LAGs under LEADER I, currently over 2,300 with attendant increases in area covered and budget, from €450m to>€5bn).

Looking ahead we see the further extension of the LEADER approach as the basis for community-led local development in the CSF-Funds 2014-20 with the possibility for LEADER territories to implement "multi-funded" strategies.

The LEADER Approach and its Objectives

The main concept of the LEADER approach is encapsulated in the acronym which gives it its name, from the French, Links between Actions for the Development of the Rural Economy. The intention is that by strengthening the convergence between those responsible for interventions and the potential beneficiaries **and** building the links between areas, sectors and activities that the development process may be accelerated through enhanced connectivity. The 2006 Community Strategic Guidelines for Rural Development further strengthen this through horizontal priority objectives for LEADER aimed at helping to diversify the economic base and strengthen the socio-economic fabric of rural areasThese objetcives are the improvement of local governance, fostering innovative approaches to linking agriculture, forestry and the local economy and mobilising the endogenous development potential of rural areas.

Underpinning this is the theory that given the diversity of rural areas, development strategies are more effective and efficient if they are decided and implemented at local level by local actors; accompanied by clear and transparent procedures; have the support of the relevant public administrations and are supported by the necessary technical assistance for the transfer of good practice. Bringing these elements together within the overarching approach lies at the heart of the proposition for achieving substantive added value through LEADER.

This theory is implemented through a specific methodology which has come to be known as 'The LEADER approach' which seeks to build local actors' and communities' capabilities and strengthen the delivery of local development actions. According to DG Agri, the difference between LEADER and other more traditional rural policy measures is that it indicates 'how' to proceed rather than 'what' needs to be done'.

There are seven main elements of the approach although constant throughout the four generations of LEADER have evolved and adapted in their application to changed circumstances, these are:

- **Area-based local development strategies**: Areas often characterised by common traditions, a local identity, a sense of belonging or common needs and expectations and with sufficient coherence and critical mass to support a viable local development strategy.
- **Bottom-up approach**: Local actors participate in decision-making regarding the local strategy and the selection of the priorities to be pursued in their local area.
- **Public-Private Partnerships**: A 'Local Action Group' (LAG) tasked with developing and implementing a local development strategy, deciding the allocation of resources and managing them.
- **Facilitating innovation**: Stimulating innovative approaches to the development of rural areas.
- **Integrated and multi-sectoral actions**: The local development strategy must have a multi-sectoral rationale and approach integrating multiple sectors of activity.
- **Networking**: Including transferring good practice, disseminating innovation and building on the lessons learned between LEADER groups, rural areas, administrations and organisations.
- **Co-operation**: Joint projects with another LEADER or similar group in another region, Member State, or even a third country.

In applying this method and supporting the projects themselves the process of development and strengthening the capability of rural communities is pursued in a complementary manner.

The Challenges of 'Mainstreaming'

The 'mainstreaming' of LEADER has undoubtedly proved to be challenging and has met with varying levels and forms of success. The Commission's purpose in mainstreaming LEADER was to implement the LEADER approach more widely in mainstream rural development programming. The main added value of the LEADER Axis was to be found in the way in which actions are implemented and linked together, both in and by rural communities themselves. What appears to be happening in practice is that LEADER is being implemented as a mainstream delivery mechanism, i.e. it is being assimilated by the mainstream. Rather than the method being more widely applied by the mainstream LEADER has been treated as if it were just another delivery scheme to the detriment of its distinct approach. This has arisen largely through a misinterpretation of what was intended coupled by restrictive implementation of the wider RDP rules. The very incorporation of LEADER into the RDPs opened this possibility as it placed it under the scrutiny of rural Payment Agencies whose primary concern is to avoid errors or disallowances which could impact on their accreditation not just for Pillar 2 RDPs but also Pillar 1 support payments.

Whilst LEADER could fund projects fitting under the measures of the other Axes it was not required to do so (Art. 63 of Reg. (EC) 1698/2005), where it did so the eligibility and other conditions attached to those measures did apply however. It is clear that by the "mainstreaming" of the LEADER approach the Commission did not intend to limit the possibility of funding innovative actions through the LEADER approach, thereby reducing the possibility of funding innovative projects in relation to what was possible to fund under Leader+. Rather 'mainstreaming' was intended to broaden the scope of application to the whole rural development tool-kit and so create a specific added value.

ENRD Focus Group 2 found that a one-sided interpretation of Art. 64 of Reg. (EC) 1698/2005 may be restricting in the sense that projects selected by LAGs within the framework of their local strategy, have to comply with the eligibility criteria of measures from axis 1-3. In practice, this article only mentions the possibility of using the mainstream measures for the implementation of projects linked to local strategies. It does not refer to this as the only way to implement LEADER.

ENRD Focus Group 1 examined the implementation of the bottom-up approach in LEADER which led it to consider the delivery systems employed in the different Member States and the effects of these on LAG autonomy. Considerable concern was again expressed about the possible conflict between mainstreaming under RDPs and respecting the key elements of the LEADER approach, the transition from Community Initiative rules to those of the EAFRD had been difficult. The new rules and operating practices are more constraining and burdensome than those applying to Leader+ groups e.g. where LEADER projects delivered using EAFRD measures have to conform to the requirements for those measures. This raises the risk that the added value of the LEADER approach is reduced or lost becoming "just another delivery method" for RDP measures.

This Focus Group found that there is no universal division of responsibilities between the MA, PA and LAGs in the delivery systems, in the majority of MS, LAGs are principally responsible for implementation. They produced a typology of LEADER Models as follows making a clear distinction between levels of autonomy:

1. **Decentralisation of Project Selection Competence.** The "basic model" reflecting the minimum local competence requirements where the LAG is responsible for implementing the local development strategy and generating, appraising and selecting projects which it then submits them to the MA, or another implementing body for the formal project approval and subsequent authorisation of claims. This model applies throughout most of northern Europe.

2. **Decentralisation of project selection and payment competence**. Under this model the payment of claims is added to those of the first model. This model is much less common but applies in England and Wales. (In England under Leader+ both of the first two models were possible, in Wales project selection involves additional tiers of decision making)

3. **Decentralisation of project approval (local global grant).** Here the LAG is responsible for project appraisal, selection, formal approval and issuing the grant letter to the beneficiary. The legal commitment towards the beneficiaries is made by the LAG (issuing the grant letter). The LAG therefore needs to be a legally accountable body or to designate such an accountable body from within its membership. The MA retains its responsibility on the efficiency and correctness of management. (This is broadly the model applied in Scotland and the Irish Republic. In Ireland the LAGs are formally constituted and legally accountable entities, in Scotland LAGs nominate an accountable body within their membership which is responsible to the MA, a local authority in almost all cases)

There are plusses and minuses in all these models particularly in relation to the degree of empowerment, ownership and accountability within the LAGs on the one hand and the relative levels of scrutiny and checking required of and by MA / PAs on the other (the magnitude in both cases increasing from Models 1 to 3). The degree of the programme authorities' involvement therefore varies considerably reflecting levels of experience, administrative know-how and trust between actors in the multi level governance chain. The TWG identified poor articulation between the tiers of administration, differing interpretations, and the need for adequate administrative capacity at all levels. Decision making was becoming slowed down, multiple checks were taking place, LAGs ability to act was being compromised by the delivery system, the interaction of the LAGs with the delivery system was placing heavy administrative burdens on the authorities.

These difficulties have been reinforced by audit considerations. LEADER LAGs have become subject to scrutiny by auditors who approach from the perspective of CAP compliance, there is little if any differentiation, innovation and risk are anathema, LEADER projects are being aligned with RDP measures whether they apply or not. In some Member States the tendency to gold plate is writ large and is very substantially compromising the potential for added value from LEADER. In many cases it is suggested that audit has lost sight of the objectives here and of its own role in becoming the master rather than the protector of policy.

It can be argued that in reality 'mainstreaming' as practiced in many Member States has in effect reintroduced and reinforced the very types of transactional costs and barriers which LEADER was originally designed to minimise. In moving from a Community Initiative delivery system(and one which successfully delivered a multi fund approach in LEADER II), and introducing fund specific systems and conditions into model designed for precisely the opposite purpose mainstreaming has been completely counterproductive.

This was brought into sharp relief at a recent LEADER subcommittee meeting one long standing LAG manager from Austria was moved to express his frustration. That after four generations of LEADER a gap still exists in mainstream delivery organisations understanding of the LEADER approach and that there are still differences between the two ways of doing things with poorly adapted delivery systems meant that the LEADER ambition of strengthening the links between actions and actors remained unfulfilled. Things worked at the LAG level but the multi level delivery and governance system had not been successfully mainstreamed.

The response from the room was quite striking. The fact that LEADER aspirations for achieving area based, integrated and innovative community led rural development are still

challenging for mainstream delivery was argued to reflect the strength of the approach and the continued need to challenge the conventional. Expectations have changed on both sides, mainstream delivery is more adapted and receptive to the LEADER way of doing things. However, aspirations for change through LEADER have also moved on, with the result that a gap with mainstream thinking still exists.

What does LEADER Deliver?

LEADER has the most significant and substantial body of experience in devolved local delivery of Structural Fund support. It has delivered in terms of the delivery capacity and participation of local people objectives, in Scotland alone we have moved from five LAGs at the start to 20 and a further 13 FLAGs, LEADER is delivering almost 7% of RDP funding, well above the required 5% minimum. It achieves broad buy in from local actors and organisations, it delivers projects locally and levers very significant match funding and in kind contributions. At the SRDP MTE Axes 3 and 4 had created 900 FTE jobs and LEADER was rated extremely highly as a support mechanism by the majority of beneficiaries surveyed. In the best cases national programmes can achieve private investment levels as high as 45%. The table below provides an example from the Moray LAG of the distribution of funding committed to LEADER activities illustrating a typical example of the strength of the leverage effects.

Figure 2: Composition of Funding in Moray
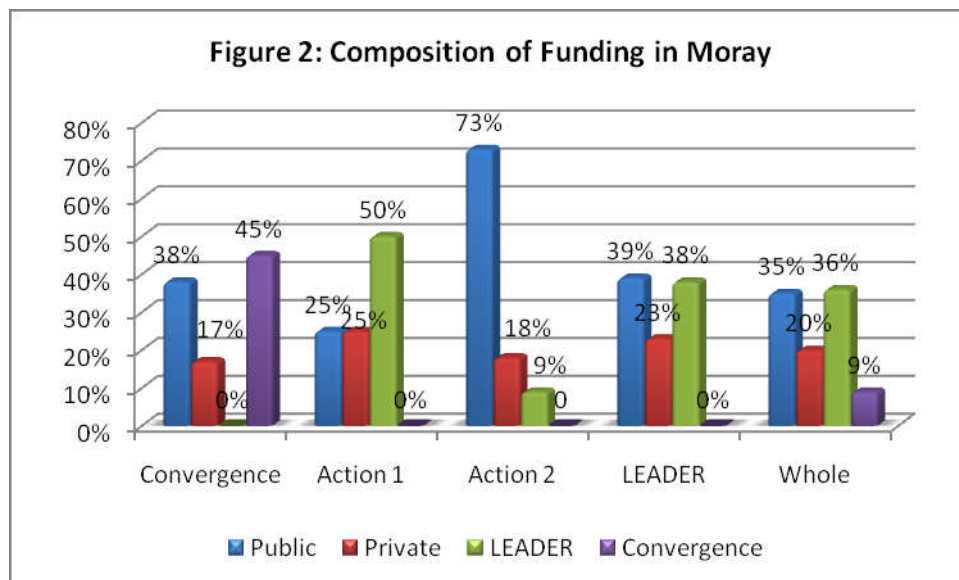
In kind contributions are poorly captured but evidence from evaluations shows these can be very substantial, one example project in the SRDP MTE recorded 10,000 man hours of 'free input' from the community. In this example and many others LEADER demonstrates that through its very design and ethos, at local level it enables people to most effectively identify the need and opportunities and address this identifying, accessing and applying the range of resources.

That said LEADER is poor at recording its achievements, many evaluators and analysts accept however that it doesn't underperform but underreports. This is partly because of the complex and process oriented elements relating to 'how' development is done, capacity built and governance developed and the lack of qualitative measures for much of that. The effects of many of the projects are small scale and diffuse, geographically and over time, consequently they are expensive and difficult to record. The best examples of LEADER outcomes are generally evidenced through unconventional methods, case studies etc. The evidence of success is at the local level and that is where it must be measured. That said

LEADER undoubtedly has a strong delivery track record, it remains experimental but continues to build its track record. As part of that process the overall approach and methodologies for evaluation are improving as is the level of understanding and application, this is a priority for the next round of LEADER.

This strengthened focus on evaluation and identifying the added value of LEADER is due in no small part to the European Court of Auditors special report which identified weaknesses in monitoring and evaluation and also in the strategic focus of LAGs. It further identified some implementation challenges such as the dangers inherent in the undue influence of some local authorities and poor additionality in relation to their activities. In doing so they confirmed many evaluations findings and concerns. Most striking however was that the ECA did not challenge the principles of devolved delivery through LEADER, rather they were concerned to ensure that the added value of the approach was more clearly identified and protected by improving the implementation of the approach and its principles. These findings were subsequently reflected in the EC's Common Provisions Regulation in the text specifying the approach to CLLD.

In many respects it can be argued that Scotland does relatively well in LEADER by comparison with other countries and that the approach is improving again after some teething problems in the early part of this programme. The approach and LAGs have managed to function and deliver despite the challenges, weak guidance from the MA at start-up, problematic implementation models, the shift of the MA to RPID and the direction towards community type activity rather than the more economic focus intended by the EC. In driving local development activity LEADER has delivered where many CPPs have not and has done so in the absence of their effective participation. What other instruments can respond and react as effectively at local level? LEADER in Scotland has done so cost effectively, the average running costs at the MTE were 13% of budget by comparison with the 20% permitted, many countries struggle to stay within the 20% and the new Regulation sets a 25% threshold.

It is clear that the approach works best where there is an effective partnership and an enabling LAG resulting in strong implementation of the principles such as we see e.g. in the Scottish Borders. It is most challenged where the local authority, as accountable body asserts ownership e.g. Highlands, or where the LAG and accountable body understanding and implementation is poor as in Fife.

The Way Ahead?

By attempting to deliver RDPs through a local mechanism mainstreaming policy appears to have been misguided. The fact that such mainstreaming did not in reality occur further exposed LEADER to misinterpreted implementation controls and as a consequence to inappropriate scrutiny. The local approach is being compromised by an overambitious, poorly understood and badly implemented approach to mainstreaming. The ambition overreached the reality; it was several steps too far.

In effect what we have seen is reverse mainstreaming. With LEADER as a delivery scheme, reinforced by audit, the machine has taken over the policy and lost sight of the objectives. Standard conditions are rigidly applied to LEADER, the devolved delivery objective notwithstanding.

The ECA audit concerns appear valid, LEADER is not without its difficulties, it needs to demonstrate what it delivers better and the systems need to be more robust. That said the conclusion is not to limit LEADER to a more prescriptive approach or to hand control to LAs or other public body as this would compromise the added value sought. Rather the ECA

recommends that we improve and protect LEADER and the method, this is consistent with the EC's perspective and the push to refresh the approach.

All the evaluation evidence suggests that LEADER is most successful where the links between actors and actions and the convergence principle operate in as complementary a fashion as possible. Achieving this means that LEADER's multi level governance and the multi level (funding) delivery system need to work in concert. Does the fact that challenges still exist in these delivery systems in reality demonstrate the need to keep pushing the boundaries in developing and strengthening the links? Is establishing the core method, the effective links between actions, between actors and achieving convergence perhaps the ultimate objective rather than the starting point? Do LAGs need to do both governance and delivery, decisions and approvals, is this where LEADER is coming unstuck? How can this best be addressed?

Moves are taking place to formalise LAGs as intermediary bodies or to require the introduction of such formally designated bodies if they are to 'approve' funding; this should remove some of the audit concerns and enable rationalisation of back office functions. This would be particularly important if LAGs were to be involved in delivering other funding streams even with the possibility of operating a lead fund for administrative costs. This route leads to the formal constitution of LAGs as responsible entities.

But has LEADER lost direction in the turmoil of trying to do everything and the associated delivery system challenges? The understandable desire of some LAGs to be more autonomous in their actions has become embroiled in delivery system accountability and audit challenges, this is clearly counterproductive. This author would argue that LEADER is best focusing on what it does well: deciding the priorities and how they should be addressed. Model 3 is not necessarily better than Model 1. LAGs do not need to 'deliver' everything. The need for renewal and refocusing on the core objectives and principles is clear and the relevance of LEADER with its focus on short-circuiting the system, making the funds work locally and in concert remains acute.