ESIF PROGRAMME PERFORMANCE AGAINST THE PARTNERSHIP AGREEMENT

Recommendations

1. The JPMC is invited to
   - Make observations on progress against Partnership Agreement goals and objectives
   - consider how the reported progress and issues impact on the scope of the planned review of ERDF and ESF

Purpose

2. This paper assesses the progress of the four ESIF programmes in Scotland in delivering against the objectives and goals set out in the Partnership Agreement. Alongside updates from JPMC members, it is intended to support open discussion on the direction of those programmes and whether that direction remains relevant in light of current performance, and changes to socio-economic context.

Structure and Method

3. The paper draws on macro-indicator analysis, on programme level monitoring information such as monitoring of commitments and targets, and on extensive dialogue with Lead Partners and scheme leads to capture up-to-date delivery information. It is split into sections:
   - Section 1 deals with top-level performance against the Partnership Agreement, and draws out factors which concern the ability of the programmes to deliver against that strategy on current trends
   - Section 2 responds to the previously requested focus on Youth Unemployment, one of the first areas of funding to be committed and begin delivery
   - Section 3 gives detailed analysis and commentary against Smart, Sustainable and Inclusive indicators, and sets out the prospects for each area delivering against the Partnership Agreement

Executive Summary

4. The Scottish Partnership Agreement is built around alignment between EU and domestic goals and funding, identifying the best niche for European investment to help bring about transformational change in a limited number of policy areas. Each of the operational programmes is designed to contribute to this, by focusing funding and setting ambitious targets around the level of skills, investment, environmental practices, jobs, businesses and communities expected to be supported.

5. Combined commitment levels for all of the programmes have risen substantially since the previous JPMC meeting in May 2016, from 23% across the programmes to 44%. This does not account for EMFF which is committed at UK level, and where commitments for the Scottish portion are currently at approximately 23% (€27 million of a Scottish allocation of €107 million). Although not yet showing in statistics, there is also substantial delivery

activity on the ground, expected to be confirmed through claims before the end of the year and described in the Smart, Sustainable and Inclusive chapters in more detail. This includes activity in every area of every programme except ERDF Improving ICT, where an application is now underway and expected to be approved by the end of the year (digital under EAFRD has already started).

6. The pace of commitment and delivery activity are not evenly matched within the programmes. For example, there is slow commitment in ERDF innovation and SME competitiveness, but significant activity is being delivered at risk prior to formal approval; and relatively steady commitments across employability, but with delivery slow to start in some areas. EAFRD is well-committed on food and drink, and on agri-environment and forestry with legacy commitments, but LEADER has been slower to start in all areas than initially anticipated. Those areas which have taken more time to commit tend to reflect areas which have not previously received support (poverty), where the type of support has materially altered (e.g. innovation centres); or where further thought and strategies are required, for example local action plans for LEADER.

7. In terms of the pace of delivery, match funding is increasingly being perceived and reported as an issue by Lead Partners and stakeholders. On one level, public resources will be put under pressure where central match or co-financing of EU funds is provided (EAFRD, much of ERDF and ESF) through a combination of currency movements (which currently mean the programmes will require more extensive domestic resources to commit and draw down) and public sector budget control. From the perspective of smaller organisations, the mixed picture on match funding, with some lead partners supplying it and others not, is also reported to the Managing Authority as confusing, particularly in ESF.

8. For the immediate future, the issue most cited by scheme leads, lead partners and stakeholders to programme teams is continuity and certainty around the levels and length of financial commitments arising from the programmes. This is especially the case for long-term investments such as local action plans, higher-level skills and building portfolios of private investment. However, there may also be impacts on ESF from the introduction of Universal Credit, the positive movement in the labour market and the transfer of some welfare and social security powers from UK Government to Scottish Government. These factors may combine to make clients harder to find and to identify, as well as giving a different policy focus than during the first half of the programme – see discussion under Inclusive Growth.

Conclusions

9. Smart Growth is currently the most significant area of concern, and for ERDF in particular. There is less funding committed than anticipated at this stage, albeit with a major anticipated approval for ERDF Improving ICT; N+3 targets should start to be cause for concern as a result. There is an emerging mismatch between committed funding and projected results. For example, the number of businesses supported is, less than halfway through the programme, sitting at over five times the value anticipated for the whole programme duration, which raises questions over whether the level of support provided to each company will genuinely help them innovate and grow. This is, however, balanced by good performance in EAFRD on, for example, young farmers, with higher than anticipated numbers of applicants and grants.

10. In contrast, Sustainable Growth appears to be largely on track, with 50% of funding committed and targets matching up to programme expectations. Where they do not, there are good reasons for this, for example the change in emphasis towards demonstrator projects in the Low Carbon Infrastructure Transition Fund which will deliver fewer supported

projects overall, but greater long-term change in the market and leverage value of low carbon investment. Significant new activity on forestry and agri-environment (EAFRD), and the quality of the pipeline emerging for low carbon and resource efficiency activity (ERDF), underscore the value of building momentum and scale into the programmes, but this now needs to be maintained to deliver long-term benefits.

11. Commitments for Inclusive Growth are also positive, although there are differences between Funds and priority axes. ESF generally is performing well, but the early indications from actual performance on the Youth Employment Initiative should raise a note of caution, as attrition rates are significantly higher than anticipated. This combined with underlying changes in labour market conditions and in the welfare system to universal credit may make clients both harder to reach (needing greater levels of support) and more difficult to identify (there are fewer potential participants now than at the start of the programme). As noted previously, LEADER and the EMFF FLAGs have also taken longer to establish, although all strategies are now approved and budgets allocated to local groups.

Recommendations

12. The JPMC is invited to

- Make observations on progress against Partnership Agreement goals and objectives
- consider how the reported progress and issues impact on the scope of the planned review of ERDF and ESF

JPMC Secretariat
30 November 2016

SECTION 1: PERFORMANCE AGAINST THE PARTNERSHIP AGREEMENT

1a. Dashboard

Financial performance by fund

Fund	Programme value	Committed/ approved	% of target committed	Spent/claimed
EAFRD (Including VM)	€841,458,131	€410,790,366.64	48.82%	-
EMFF	-	-	-	-
ERDF	€ 476,788,330.62	€194,469,857.38	40.79%	-
ESF	€ 464,149,373.46	€193,760,186.58	41.75%	-
Total	**€1,782,395,834**	799,020,410.60	**44.83%**	**-**

Financial performance by growth heading (whole programme)

Growth heading	Programmed spend	Committed/approved	% of programmed spend	Spent/claimed
Smart	€470,814,808	€177,788,601.91	37.76%	-
Sustainable	€901,980,079	€453,832,133.44	50.32%	-
Inclusive	€385,171,582	€165,199,675.26	42.89%	-
T.A.	€24,429,366	€2,200,000.00	9.01%	-
Total	**€1,782,395,835**	**€799,020,410.61**	**44.83%**	**-**

Physical performance

EU 2020 Target*	Baseline	Current
3% of GDP on R&D&I[1]	**1.58 %**	1.56%
Greenhouse gas emissions -20% [2]	**-24.3 %**	-34.40%
20% of energy from renewable sources[3]	**7.6 %**	13.1%
20% increase in energy efficiency [4]	**24.1 %**	40.5%
75% of 20-64 year-olds employed[5]	**73.9 %**	76.9%
School leaving at less than 10%[6]	**14.5 %**	10.6%
40% of 30 to 34 ye[7]ar-olds with tertiary education	**53.8 %**	58.2%
Reduce the number of people at risk of poverty or social exclusion[8]	**15 %**	15%

[1] Source: GERD as a percentage of GDP, 2010 and 2014 figures
[2] Source: Scottish Greenhouse Gas Emission 2013, 2010 on 1990 and 2013 on 1990 figures
[3] Source: Energy in Scotland 2016, Share of renewable energy in gross final energy consumption, 2009 and 2013 figures
[4] Source: Energy in Scotland 2016, B & C (SAP 2009) Energy Efficiency Ratings, 2010 and 2014 figures
[5] Source: Eurostat, Employment rate (20-64), 2010 and 2015 figures
[6] Source: Eurostat, Early leavers from education and training, 2011 and 2015 figures
[7] Source: Eurostat, Population aged 30-34 by educational attainment level, 2011 and 2015 figures
[8] Source: Poverty and Income Inequality in Scotland 2014/15, Relative poverty (below 60% of UK median income in the same year) in Scottish households - all individuals -, before housing, 2010/2011 and 2014/2015 figures

	PARTNERSHIP AGREEMENT RESULTS INDICATORS (source: all applications and achievement data from ESIF programmes)				
Fund	Indicator	baseline	target	committed	Achieved
EAFRD	% of agricultural and forest land under management contracts contributing to carbon sequestration	-	16.1%	-	8.7%
	% Forest or other wooded area under management contracts supporting biodiversity	-	38%	-	6.8%
	% Agricultural land under management contracts supporting biodiversity and/or landscapes	-	22.7%	-	12.4%
	Total number of participants trained	-	10,617	9,227	87.0%
	% of agriculture holdings with RDP support for investments in restructuring	-	16.4%	-	2.4%
	Rural population benefiting from improved services / infrastructures	-	245,376	-	-
ERDF	Number of innovative active enterprises	11,000	12,600 (+1,600)	1,624 (12.9%)	
	Additional leverage of BERD	37,000,000	363,000,000	84128000 (23.2%)	
	No of high speed broadband residential and business subscriptions in the Highlands and Islands	24,499	89,087 (+64,588)	-	
	Number of SMEs exporting	44,064	94,906 (+50,842)	897 (1.8%)	
	Employment in Smart Specialisation Sectors	317,250	368,067 (+50,817)	1,868 (3.7%)	
	Proportion of journeys to work undertaken by public or active travel	30.7%	32%	32.2% (100.7%)	
	Journeys undertaken using smart ticketing	146,000,000	276,800,000	-	
	Low carbon investment levered into Scotland by private and institutional investors (EUR)	£28,500,000	£413,000,000	£328,959,493 (80%)	
	Employment in low carbon sector in Scotland	78,000	81,900 (+5%)	81,900 (+5%)	
	Positive rating of satisfaction with the quality of green infrastructure in urban areas in Scotland	74%	80%	75% (93.4%)	
	Savings from resource efficiency investments in supported sectors	£6,000,000	£232,152,000	£22,960,500 (9.9%)	
	employment in circular economy	7,200	8,280	-	
ESF	unemployed or inactive people with multiple barriers in training, education or employment after 6 months	3,082	32,510	18,624 (57%)	
	(Composite) YEI Participants with sustainable outcome 6 months after leaving (all age groups)	5,997	13,315	15,825 (119%)	
	Participants no longer affected by debt as a barrier to social inclusion	700	4460	5816 (130%)	
	FTEs created in supported community/third sector/social enterprise organisations	11	100	204 (204%)	
	total participants gaining ISCED level 3-5 qualification	5,361	34,368	20,818 (61%)	

1b. Overall Economic and Political Context for programmes

Changes in the economy and labour market

13. The last Scottish Government State of the Economy update was published by the Chief Economic Advisor in June, prior to the EU referendum vote. At that time, the outlook for both the UK and Scottish economies in 2016 and 2017 remained positive, despite the challenges impacting the oil and gas sector. Central to these projections was the assumption that the UK would vote to remain in the EU.

14. The latest State of the Economy update was published in October 2016[9], and this supersedes the June update in all of SG's subsequent economic and labour market forecasts . The October report notes that the EU referendum result had an immediate impact on economic and business sentiment in Scotland and the UK, and led to a review of existing economic forecasts as both Sterling and stock markets reacted to the vote. Four months on, there still remains a high degree of uncertainty, with most forecasters downgrading growth expectations for 2017 and beyond, reflecting in particular decreased investment confidence and certainty, greater market volatility, decreased trade as businesses adjust in advance to life outside the EU, and decreased household consumption as a further pressure on investment as businesses themselves perceive less certainty for uptake for their products.

15. As a general summary over the past 6 months, however, Scotland has fared relatively well:

- The Scottish economy grew 0.4% in Q2 (0.7% over the year), following flat growth in the first quarter.
- Output growth was driven by continuing growth in the Service sector (0.5%) and a return to growth in the Production sector (0.3%) offsetting a second consecutive quarter of contraction in the Construction sector (-1.9%).
- The latest Scottish labour market data (Jun-Aug 2016) shows that unemployment fell to 4.6%, below the rate in the UK (4.9%) and its lowest since 2008.
- Labour inactivity levels increased by 26,000 over the quarter resulting in an inactivity rate of 22.3% slightly higher than in the UK as a whole
- The unemployment rate for 16-24 year olds in Jul 2015-Jun 2016 in the South West of Scotland was 13.2%, almost half of the 25.1% in December 2012. It is now also lower than the Scottish national average, at 14.1%.

Changes in the Environment

16. The Scottish government regularly publishes statistics on a range of environmental indicators[10] in the form of Key Scottish Environmental Statistics. the latest publication in October 2016, from which the statistics below are taken, shows a generally positive trend on environmental factors ranging from emissions and recycling to water quality, habitats and biodiversity:

- Scotland's emissions continue to fall against an otherwise global increase, now standing at 46.7 million tonnes of carbon dioxide equivalent (MtCO2e), 8.6% lower than 2013 and 39.5% below 1990 levels. There has also been a drop in air pollutant emissions of ammonia (13%), PM_{10} (46%), non-methane volatile organic compounds (65%), nitrogen oxides (69%), carbon monoxide (75%), sulphur dioxide (90%) and lead (98%), although some areas continue to be a challenge for air quality standards.

---

[9] http://www.gov.scot/Topics/Economy/state-economy/latestSofE

[10] http://www.gov.scot/Publications/2016/10/7565

- Household recycling rates continue to increase (44.2%, up from 42.8% in 2014). Between 2005 and 2014, total waste landfill decreased by 42% and biodegradable municipal waste landfill decreased by 51%.
- Water quality is improving gradually, both in drinking water (since 1992) and in water bodies (since 2013 and the introduction of Water Framework Directive standards). The level of coliform bacteria is now the lowest ever level recorded (at just 0.25%), river quality is increasing and 85% of the 81 coastal bathing waters met the new minimum European standard with 73% classified as excellent or good quality.
- Woodland area has increased by 2% since 1995, to 18.4% of Scotland's land. The area of designated protected areas and number and area of scheduled monuments has also shown an upward trend over the long term, as has their condition, with 80.4% assessed as being in favourable condition.
- The abundance of terrestrial breeding birds, which is a proxy for wider biodiversity, has shown a long term increase of 20.1% between 1994 and 2014. In the last year, the abundance of terrestrial breeding birds increased by 14.6%, following a general decline from the peak of 2008. However, decline continues for both wintering waterbirds and seabirds. This is a significant concern, and support for habitats and particular species support is available under the agri-environment schemes in EAFRD to mitigate these impacts.

Change in the Institutional Landscape

17. In addition to changes in the economy and wider political relations with Europe, the domestic political context in Scotland is also changing in areas which may have significant impact on how the funds operate and indeed what they are expected to deliver.

18. The Scottish Government assumes responsibility for some welfare and employability functions and spending in March 2017, particularly support for long-term unemployed. This coincides with ambitions to review the ERDF and ESF programmes to shape around the new context, and funding balances in these areas may change as the direct result of new policy developments and priorities

19. A major review of enterprise and skills functions of Scotland's public bodies is underway, and is expected to report in the early part of 2017. This may change the Scottish Government's current policy focus around promoting exports, and particularly the choice of export markets, around innovation and partnerships and the way in which skills development is targeted and delivered. Because the structure of the 2014-20 ERDF and ESF programmes was closely aligned with existing domestic delivery (at the time of its design) to maximise its impact, the Managing Authority might need to shift from current arrangement, to a new focus, to reflect any new priorities that arise from these changes.

20. Finally, the May 2016 elections have had a specific impact on the Funds, in a renewed focus on the rural economy. Changes to the Ministerial portfolios has seen a separation of Ministerial responsibility for forestry and environment (though is not viewed in isolation from the SRDP) and has placed more emphasis on the economic impacts that could be delivered through the programme through support to Broadband and more targeted sectoral support such as young farmer new entrants.

1c. Emerging Concerns and Issues for meeting Partnership Agreement Objectives

Area	**Target**	**Progress to date**	**Remaining Issues**
Pace of commitments and delivery	N+3 targets will see 2014 budgets requiring to be committed and delivered on the ground next year. On the basis of progress reported in the smart, sustainable and inclusive growth sections, it currently appears likely that we will miss N+3 targets for ERDF. EAFRD is in track and any risk to ESF is mitigated by the front loading and mainstream matching of the YEI.	Significant approvals in ERDF and ESF across all priority axes, EAFRD on target, but some anxiety around longevity of LEADER. Activity commenced across programmes, and very advanced in low carbon and resource efficiency. Mixed progress on employability and social innovation, areas which tend to have high involvement of smaller organisations. Early starts in some pipelines in 2015, but a number are still procuring or running challenge funds now.	A number of ERDF and ESF priority axes are significantly under-committed compared to expectations for this stage of the programme and approved Strategic Intervention values. In particular: • Innovation: £ 19.5 m • SME competitiveness: £18 m • Employability: £6.7 m • Active inclusion: £4.7 m • Higher skills: £5.7 m It is not always clear to delivery partners in which areas and how much match (if any) they are required to bring to participate, and stakeholder anxiety about pace of funding reaching smaller organisations is increasing.
H&I spend	H&I ESF and ERDF programme is worth proportionately more per head, reflecting transition region status and historically higher levels of spending. Commitment levels need to reflect this.	Highlands and Islands commitments account for 27% of the funding allocated to the transition region, versus a national figure of approximately 41%	The anticipated digital application to ERDF would take H&I approvals to 38% overall. However, this apparent improvement might mask low uptake in other areas of activity, particularly employability is ESF and innovation and SME competitiveness in ERDF. Under-commitment is likely to be exacerbated by further funding allocated to transition regions as the result of MFF review (see paper 4).
Match funding, particularly on employability and social inclusion	Involvement of third sector and community organisations is a central ambition of the programmes, with a continuation of previous programmes activity in employability and new activity	Although many operations are fully funded, a number of other operations in employability and social inclusion are not centrally match funded. There are early anecdotal reports that third sector organisations are finding it	Whilst not unusual (partners traditionally bring match to ERDF and ESF projects), the current squeeze on public sector spending is likely to mean that this will not be easily addressed. This raises questions around the deliverability of programme level targets and whether these can be delivered for less, or with less third sector

	around social enterprise, social innovation, low carbon communities and transport and green infrastructure available for those organisations.	difficult to identify other sources of funding.	involvement. In contrast, a number of fully-funded procurement calls by local authorities have gone unanswered, and the Lead Partners in these cases think that this is because they were either too large for 3rd sector organisations to respond to. However, the pace of progress with delivery appears to be as much linked to the level of experience of partners on the ground in dealing with EU Funds as it does with limited match availability, with projects and delivery starting more quickly in areas which have carried out similar activity with the Funds previously.
Adjustment to new Management and control systems and role of lead partners	The role of lead partner in ESF and ERDF helps direct large awards towards shared ambitions and objectives, as well as ensuring the capacity for controls are in place and that smaller organisations do not have to bear the burden of control and audit.	The new style of working has raised legal issues in relation to procurement, contracts and offer letters, and this has led some lead partners to take a cautious approach to starting delivery until all agreements are legally in place. New systems and processes have taken time to bed in, and smaller delivery organisations are no longer able to bridge funding gaps.	Any review of the ESF and ERDF programmes needs to take into account the requirement for funding continuity, as the timescale for a possible Brexit puts additional pressure on making and delivering funding commitments; and as smaller organisations with valuable delivery capacity will not be able to carry a second funding hiatus.
Momentum for delivery	Supported areas such as industrial transition to resource efficiency and low carbon need to build up good interest and momentum in the private sector to attract investment.	There is now a strong pipeline and active calls for further projects in both areas.	This momentum then needs to be met by funding approvals, including consideration of the second half of the programme.
EAFRD	PA targets include a contribution by EAFRD	Over 6,700 approvals to date worth over £200m, along with around 11,300 farmers and and crofters supported under LFASS annually	Aim to continue momentum however risks include the impact of the EU referendum result on confidence of rural sectors to invest and the potential for impact of spending reviews. LEADER requires stability to deliver local action plans.

SECTION 2: FOCUS ON YOUTH EMPLOYMENT INITIATIVE

21. The JPMC requested an in-depth update on Youth Employment Initiative at its May 2016 meeting. YEI operations were the first to be approved, and could therefore be a good indication of on-the-ground uptake and performance of the funds, particularly as they relate to labour-market based initiatives.

Financial allocations and projections of results

22. YEI funding required to be committed by the end of December 2015. Scotland committed £59 million to 15 operations (with a further £30 million in partner funding), covering employment initiatives for young people and additional learning places. With exchange rate fluctuations, this commitment is now €66 million, a commitment rate of 71%.

23. This is the first indication of an issue all of the ESIF programmes are likely to face. As they are committed in pounds sterling, the corresponding commitment rate will drop and rise with the currency exchange rate. Recent movement has been significantly outwith the long-term norm, and for priority axis which are not time limited, this may impact on decisions of what value to commit. It is suggested that all Managing and Paying Authorities keep this movement and any impacts under close review.

24. In terms of results, the YEI operations are aiming to assist 19,954 individuals (compared to the programmed 17,000). The results projected are almost universally at, or higher than target, suggesting lower attrition rates throughout every intervention. The participant type is different from programme assumptions – fewer inactive participants (51% of programme values), but greater numbers of long-term unemployed (185% of programme values).

25. The previous report noted that results were particularly ambitious for long-term unemployed young people. Long-term unemployed young people in the region suffer many of the same multiple and inter-linked needs as the general long-term unemployed population, and their support needs will be more intensive and more expensive. It is therefore not clear whether these projected outturns, which were in many cases based on the wider client group which existed two years ago, are realistic or achievable.

26. This is particularly the case with the falling youth unemployment rate in SW Scotland in response to an improving labour market. The rate of youth unemployment has now fallen below the national average (13.2% compared to 14.1%). A number of domestic initiatives have already been down-sized in response to this improvement, as there are simply fewer clients to support, albeit with more difficult and entrenched issues. The introduction of Universal Credit will further impact this: it will seek to place young people on zero- or low-hours contracts, which will make it more difficult to identify clients who are in practice unemployed and in need of support.

Progress and performance

27. The majority of the Youth Employment Initiative operations have been running for a year, with a further two years of activity expected (to end of 2018), and with a third of the time elapsed, approximately a third of the participant target has also been reached. Further procurement to support coaching, training and job placements is underway, which means this number should increase in early 2017.

indicator	committed	Delivered to June 2016	target	% of target
Number of persons in YEI-supported actions	19,954	5,970	17,000	35%
Number of persons who completed a YEI operation	19,808	3,269	13,123	27%
Number of persons in employment or education or training after end of the YEI support	13,863	1,349	6,525	21%

28. The results of the first year of delivery does reflect the initial concerns around the achievability of projected results: under projected targets, the attrition rate between taking part and completing a YEI supported intervention was just 1%, whereas in practice this is showing at 45%, with a further 59% drop-off prior to reaching a successful intermediate outcome at the end of the intervention.

29. This will reflect, at least in part, the more difficult client group which has resulted from an upturn in the local labour market. Young people who were near the labour market have moved into it, and the numbers of young people entering full time education has also increased. This leaves the group of young unemployed people in the region often facing multiple barriers and therefore both needing more intensive support; and, based on past domestic schemes, more likely to cut short their own participation.

Prospects

30. From discussion with Lead Partners and the Youth Employment Initiative committee, there are no indications of long-term results emerging yet. It is likely, based on the numbers above and on similar domestic employment initiatives, that this will be a further step down from successful completions and intermediate outcomes. Unlike domestic programmes, which can and do cater for ‘soft progress’, the YEI is focused on concrete results. If the current performance and attrition trends persist, it is likely that lead partners will have to change their approach to deliver those results, or that the programme will not be able deliver against them. This is likely to be complicated by the way in which some local authorities are aligning all of their ESF funded projects, so that social inclusion and supporting individuals with very low skills leads into support through the employability pipeline and YEI. If social inclusion initiatives are not in place or not delivering at pace, that approach may not work, leading to even fewer participants suitable for YEI.

31. With more young people now entering education, providing additional educational places may end up being a more successful form of intervention in terms of results. Here, however, there might be a risk of cherry-picking participants who may in any case have gone on to take further qualifications. Although programme results might appear better, this would then not alleviate the long-term issue in South West Scotland around individuals with multiple barriers and areas of multiple deprivation and low skills.

32. Finally, a further challenge to achieving the targets may arise through the introduction of Universal credit. As the Department of Work and Pensions will seek to place young people on casual contracts, we may no longer be able to identify individuals who need support; or be in a position to offer the more intensive support through the YEI because the young person may not wish to abandon a casual contract to meet the eligibility criteria of being not in work, education or employment.

SECTION 3: PERFORMANCE IN DETAIL

3a. Smart growth

Progress and performance

Outcome indicator	Target 2023	Committed	Movement in period	% committed	delivered
Food and Drink chain operations supported for investment (EAFRD)[1]	115	-	+13	40%	33
Number of participants in training (EAFRD)	10,617	-	+294	87%	9,227
Number of enterprises cooperating with research institutions (ERDF)	1,200	30	+30	2.5%	-
Number of enterprises supported to introduce new to the firm products (ERDF)	1,050	500	+500	47%	-
Innovative Services in Cities Developed (ERDF)	20	28	+28	140%	-
Additional households and businesses with broadband access of at least 30Mbps (ERDF)	13,363	-	-	-	-
Number of enterprises receiving financial support other than grants (ERDF)	515	2,803	+782	544%	-
Number of new enterprises supported (ERDF)	950	945	-1221[1]	99%	-
Employment increase in supported enterprises (ERDF)	9,400	10,601	+3,153	112%	-
Total participants with ISCED level 5 and above qualification upon leaving (ESF)	13,433	7,703	+3,872	57%	-

[1] *this movement is the result of changes in categorisation of some outputs so that each output is reported against only one thematic objective. EAFRD figures taken from SRDP 2014-2015 Annual Implementation Report.*

Drivers of progress

33. Much innovation activity has commenced, in particular around business support, leadership and loan financing for undertaking investments. Initial reports show hundreds of SMEs benefitting already, including one to one support for over 150 SMEs, and sectoral events e.g. innovation in packaging. However, the anticipated activity around innovation centres has not yet been approved, and the other types of activity remain under-bid, effectively leaving 40% of the first half of the programme still uncommitted for innovation.

34. On SME competitiveness, there has also been significant activity, with many local areas starting at risk as early as 2015 and the enterprise agencies largely starting in late 2015 or early 2016. The SME holding fund will award final funding agreements and contracts by the end of November 2016. The activity delivered so far includes multiple leadership development cohorts, the commitment of over half the value of the SME holding fund, and ‘meet the market and ‘meet the buyer’ events at a sectoral and geographic level.

35. The Digital strategic intervention for H&I has been approved, and the operation is expected for the December approval panel, with activity commencing in early 2017, and presenting good alignment with the EAFRD funding awarded to community broadband delivery and usage in 2015. This project faces particular difficulties in identifying suitable

communities to work with, as they might be taking a risk in coming out of future potential mainstream provision.

36. Smart Cities has committed just under 60% of its allocation, around £5.7 million out of a potential £10 million. There is £1 million uncommitted in H&I and £3 million in LUPS, reflecting the difficulty in finding suitably innovative projects and technologies to test in the relatively short timescale to 2018. Higher skills has seen one full year of delivery (financial or academic year 15/16) and approvals are in place through to 2018. As most of the qualifications supported will take more than one year to deliver, it is too early to comment on results, but the move to higher skills has in itself been challenging, as it does not easily align with domestic targets and match funding, nor with existing provision.

37. Food and drink chain operators have been supported under EAFRD, with 46 projects worth €6.49 million from EAFRD (£17.5 million in total) being approved up to October 2016, for support since the new scheme launched in May 2015. These projects are intended to deliver sustainable economic growth in the Scottish food and drink sector by supporting further investment of some £41m, along with aiming to create or safeguard over 1,400 jobs. Approvals have also been made under the *Young farmer, new entrant* crofting grant scheme and *Small farms scheme*, all of which invest in the economic viability and sustainability of farming businesses. On rural innovation, the *Knowledge transfer and Innovation scheme* has approved 12 projects to a total value of £4.2m in total, or €1.5 million EAFRD only, including projects to provide dedicated courses and skills for crofters, promote knowledge exchange and best practice, and improve the competitiveness and resilience of farms in Scotland.

Prospects of meeting Partnership Agreement Objectives

38. Whilst it is positive to see the range of commitments under Smart Growth, this is an area which may need to increase pace to deliver against the Partnership Agreement. The SME competitiveness priority axis has stage 1 approvals for £80 million, with £18 million of this not yet committed through operations; and the innovation priority axis with £19 million, or 40%, of the available stage 1 applications not yet taken through to stage 2 operations approvals. This includes a number of new approaches such as Smart Cities and Innovation Centres, which may explain the slower-than-anticipated pace. However, it is likely to start impacting on N+3 targets as well as raising questions over whether the programme can reach its performance targets.

39. There is also a disconnect with projected targets, with the number of firms being supported already at – or, in some cases, vastly exceeding - target vales for the entire programme – despite the low funding commitment levels. This suggests an over-reliance on broad interventions which may not be enough to deliver the long-term results on innovation active enterprises, the level of business R&D spend (BERD) or export and employment growth. Whilst the declining value of the pound may help boost exports, this is really only beneficial for companies whose raw materials and value chain are also sourced in GBP.

40. Skills levels also continue to be a concern, with shortages reported in digital and engineering in particular, most recently through the Enterprise and Skills Review call for evidence. This makes the development towards higher ISCED skills in ESF especially important to maintain.

41. Across the piece, the main barriers to commitment and spend raised by Lead Partners are the length of time required for procurement, delays in systems and guidance, and the uncertainty around whether any activity is required to truncate in 2018, which is putting further match funding at risk due to competition from other budget demands. The vote in favour of leaving the EU is also making some final recipient businesses nervous about engaging in ESIF and indeed investing at all.

Sustainable

Progress and performance

Outcome indicator	Target 2023	Committed	Movement in period	% committed	delivered
Area of Woodland creation (ha) (EAFRD)	34,400	2,429	-	7%	2,429
Area of farmland supported by agri-env (ha) (EARFD)[1]	1,263,000	1,952,715			1,252,130
Cycle networks or walking paths constructed (ERDF)	100	50		50%	
Low carbon travel and transport hubs supported (ERDF)	20	4	-	20%	-
Low carbon projects receiving non- financial support (ERDF)	745	631	+440	84%	-
Low carbon change leader/demonstration projects delivered	25	46	+36	184%	-
Greenspace created or enhanced in urban areas (Ha.) (ERDF)	143	70	+68	49%	-

[1] *this measure will include double counting if a land manager is pursuing more than one option for land improvement, including under legacy measures.* *EAFRD figures taken from SRDP 2014-2015 Annual Implementation Report.*

Drivers of progress

42. The Low Carbon Infrastructure Transition Fund started in January 2015, and has delivered £2 million to 35 catalyst projects as well as supporting 4 large-scale demonstrators in geothermal and water source heating and low carbon energy. The Fund has also launched a single £30 million call for a 'transformation' project, for which it received 40 responses, and the team are hopeful that between 7 and 10 will be taken forward. All of these projects are required to bring further investment and be fully commissioned by September 2018, bringing significant additional leverage to the ERDF funding.

43. The resource efficiency and circular economy operations have likewise been running throughout 2015, and have just become the first financial claimants to the ERDF programme. The ERDF funding is substantially expanding existing support to SMEs to reduce resource consumption and related costs, and create circular business models with targeted investment and expert support. The ERDF investment has enabled a move beyond advice and analysis to making changes happen at scale and this is helping cement Scotland's international reputation as a leading nation on the circular economy and tackling climate change.

44. As well as gaining approval for integrated ticketing, which aims at difficult behavioural change and modal shifts, Low carbon travel and transport have recently announced and awarded £400,000 of domestic 'pre-funding' to help smaller organisations bring together high quality bids and expects to award contracts early in 2017. And Green Infrastructure has likewise made early calls and awards, with two significant projects underway in target areas and a major call underway for transformation projects up to £20 m.

45. A significant portion of Sustainable Growth investment is represented by improved land management practices through EAFRD, with a high number of contracts continuing across programme periods from the 2007-13 programme. In addition, 563 new Agri-environment contracts have been approved; and the new Forestry Grant Scheme has approved over 4,324 ha of woodland creation, up to Autumn 2016. A significant amount of

LFASS payments have also been completed, accounting for a significant portion of spend. These numbers take into account approvals since the numbers reported above in Annula Implementation Reports.

46. The Environmental Cooperative Action Fund has approved 16 applications worth around £0.8m. This fund supports landscape scale environmental interventions, for example where the actions of one land manager acting alone will not have a significant impact.

47. EMFF has also starting making approvals and commitments in this areas, with spending on aquaculture (supporting both environmental management and competitiveness), fisheries, and on the mandatory components for environmental data, monitoring and compliance.

Prospects of meeting Partnership Agreement Objectives

48. ERDF commitments are at 50%, exactly where we expect to be for the first half of programme, but with some significant changes coming through on low carbon. An increased focus on demonstrator projects means by necessity bigger projects and fewer supported within the budget envelope. However, the projected results are welcome, with a much higher leverage rate, and the Lead Partner reporting a spill-over effect on the quality of the investment pipeline in Scotland. There remains some nervousness amongst investing firms and Scottish public organisations around potential impacts of changes to UKG subsidies for green energy.

49. As is the case across the programmes, the main concerns in delivery have been the speed at which the programmes themselves moved, and the uncertainty in the aftermath of the UK referendum on EU membership. For low carbon and circular economy in particular, the 2018 cut-off date is also beginning to look unhelpful, as both require substantial building of momentum and interest to create a successful pipeline. Ceasing support at this stage would almost certainly truncate the pipeline, and set both initiatives back. Extending the programme would for both increase the likelihood of being able to secure required match funding and deliver the changes planned in the programmes.

Inclusive

Progress and performance

Outcome indicator	Target 2023	Committed	Movement in period	% committed	delivered
(Composite) Participants with multiple barriers entering training, education or employment	57,888	75,168	+24,203	129%	-
(Composite) All types of YEI participant completing intervention	13,771	19,808	-	143%	3,269
Deprived or fragile communities supported	287	194	+18	67.6%	-
Disadvantaged participants in workless, lone parent or low income households with improved money management skills	13,014	12,821	+6,157	98.5%	-
FTEs created in supported enterprises/organisations (social enterprise)	100	204	+54	204%	-
Number of LEADER operations supported	1,045	0	198	18.9%	198

Drivers of progress

50. For ESF, the employability pipelines tested in the 2007 programme have been rolled out across Scotland for 2014-20. They are by their nature locally tailored, although there are particular target groups and the Programme rules specify that participants must have more than one barrier to entering work or progressing in the labour market. Local authorities are using a mix of in-house delivery, challenge funds and procurement; and there is a mixed picture on whether match funding is provided or whether bidding organisations are required to bring it.

51. The provision of Match funding by the local authorities does not always bring about success in letting contracts, though, as a number of areas have reported fully-funded contracts as unlet, with no interest. This is particularly the case in remote rural areas, where service delivery is both more difficult and more expensive. And whilst procurement is providing certainty for some organisations around what they are expected to deliver, the size of some contracts on offer are suggested as being too big for smaller organisations to handle (anecdotally, these smaller organisations are subsequently approaching main contract winners and working in partnership); and the activity tailored to the needs of a local areas might not necessarily be a good fit with the focus of organisations who have previously accessed Structural Funds.

52. In many cases, delivery commenced at risk in 2015 and at least one full year's worth of activity has been delivered. From these areas, it is now possible to say that the approach is working, with services redesigned around the pipeline approach rather than individual point-in-time services. There are particularly good examples from those areas which started early delivery, such as City of Edinburgh Council, where there has been a 12% drop in the number of individuals in each of stages 2 and 3 respectively, and a 25% increase in the numbers in stage 5, suggesting steady progression for participants.

53. The National Third Sector Fund (for larger third sector organisations delivering interventions across more than one area) has run several procurement calls, and has been reasonably successful in allocating funding in LUPS towards activity which is not covered

through the local pipelines. The H&I region presented a challenge in that organisations do not work across boundaries in the same way as elsewhere in Scotland precisely because of the nature of the territory: the boundaries are physical, with services restricted to islands or mainland. A modified procurement exercise is underway to reflect this and ensure that the region benefits from this funding.

54. Progress has been slower on promoting social inclusion and combating poverty. A number of suggested operations may now be now under threat from the 2018 completion deadline, and larger initiatives like community-led empowerment, social innovation fund and targeted communities interventions have taken longer to procure or open up to bids than initially planned. This reflects a range of operational issues from local consultation, match funding, additionality and adapting to new programme rules, as well as parallel changes in Scottish policy around community engagement. However, activity is now beginning on the ground, and the majority of lead partners are providing the match funding for this activity in recognition that it is not easily available elsewhere. One major tendering exercise for community-level interventions is expected to conclude at the end of November and to begin delivery in January 2017.

55. LEADER under EAFRD (and EMFF for those LAG's which have combined the funds and strategies) continues to raise some stakeholder concerns over the pace of delivery, with plans, guidance and systems taking longer to out in place than anticipated, and both approvals and delivery on the ground therefore slower. However, local groups are now up and running across Scotland, and the first £2.5 million committed to projects.

Prospects of meeting Partnership Agreement Objectives

56. Employability allocations have not been fully exhausted, with of £6.5 million remaining uncommitted between the indicative allocations for phase 1 and approved operations. The transition region has seen a slightly slower start to activity as well as lower spend proportionately. The slightly lower spend may simply be reflective of a strengthening labour market, with Scotland at its highest levels of employment since 2008, but can also be partly explained by one known area no longer progressing with operations.

57. Result projections are universally higher than expected, with the full programme targets already committed (but not yet delivered). Past programme evidence and the current YEI performance suggests we may see a higher attrition rate in practice than currently expected from those operations. Additionally, some operations used estimates for these initial result targets, and these may need to be adjusted following procurement exercises.

58. The wider environment is likely to have a significant bearing on the success of these interventions in actually delivering those outcomes and results. The ESF programme targets very difficult-to -reach and -support individuals, those with multiple barriers to work, ingrained and long-term disadvantage, and poverty at both individual and community level?. These same individuals may also be impacted by changes to the UK welfare system and entitlements, which will see support from Job Centre Plus limited to long-term unemployment benefits after two years of claims?; a drop in direct funding for many disabled individuals; and a real-terms drop in the value of transfer incomes for the unemployed.

59. The move to universal credit may also cause some administrative difficulty. It may be difficult to tell who is unemployed or long-term unemployed, as individual benefits are subsumed into an income top-up. The impact or scale is not yet clear, but the SG Employability and Fair Work Directorate is working with the UK Department of Work and pensions to assess it.

60. For ESF, match funding continues to be a concern for stakeholders, as does pace of delivery. However, this is not necessarily borne out by the latest delivery information from lead partners, with the majority of contracts being let. The main factor seems to be experience in running pipelines rather than provision of centralised match funding. However, given the fluctuation in the value of the pound, the increase in programme value and therefore the pressure on available match funding, it is recommended that this be kept under review as implementation proceeds.

61. As with other growth themes, concerns are emerging round the longevity of interventions and local action plans and strategies. Whilst the UKG guarantee may ameliorate some of this anxiety, clear decisions and communication round timescales are likely to be needed to secure stakeholder and project buy-in to continuing to deliver the outcomes planned under ESIF programmes.