

ESIF PROGRAMME PERFORMANCE AGAINST THE PARTNERSHIP AGREEMENT

Purpose of Paper

1. 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.

Decisions Required

2. The JPMC is invited to
- Make observations on progress against Partnership Agreement goals and objectives
 - Consider how the reported progress and issues impact on future planning

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 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 have remained consistent across the ESF, ERDF and EAFRD programme. The increased levels of commitment in ESF and ERDF has been delayed compared to anticipated timescales at the previous meeting but the process is underway and new and revised Strategic Interventions are being discussed with lead partners. EMFF is committed at UK level, and commitments for the Scottish portion are currently at approximately 78% (€84 million of a Scottish allocation of €107 million). To date, €19 million of this has been claimed.

6. Since the previous meeting, the ERDF and ESF programmes have continued to receive and process claims with the total grant to date by theme reported at section 1a and the progress against results and outputs reported at sections 1a and 2 respectively. However, it should be noted that at the end of 2017, the declared expenditure submitted in both programmes failed to meet the N+3 target and, as a result, the MA has been notified of a total decommitment of €22.4 million between the programmes.

7. The Commission has notified the MA of an interruption to payments to the ESF and ERDF programmes, as a result of the findings of systems audits carried out during 2017. The MA is working with the AA and Commission to ensure all issues identified have been addressed.

8. The within the EAFRD, the SRDP programme continues to perform well with substantive levels of commitments for smart growth through new entrants to agriculture grants and food processing and marketing grants. Sustainable growth is performing well notably support for Forestry. The future of the Less Favoured Area Support Scheme requires consideration to ensure appropriate support can be delivered in the future. Concerns exist about the impact of the UK's withdraw from the EU, with a lack of clarity from the UK Government on funding guarantees for the programme after March 2019.

Summary by Growth Area

9. In the Smart Growth areas, there have been significant differences between priorities and strands of activity. Under Business Growth, Developing Scotland's Workforce and elements of Innovation supported by ESF and ERDF, commitments remain constant from the previous meeting and in line with anticipated levels of expenditure and activity; in other areas, progress remains slow. In particular, the *SME Holding Fund* and Skills Development Scotland's *Developing Scotland's Workforce* Strategic Interventions have reported levels of activity in line with approved applications and have submitted proposals for extensions to 2023. The Managing Authority (MA) is addressing concerns, shared across all priorities directly supporting participants and recipients, about the level of evidence required and made available by lead partners and whether additional support is required. EAFRD has seen good progress from projects including Food Processing and Marketing Grant, the New Entrants schemes, and the Knowledge Transfer Innovation Fund.

10. The Sustainable Growth priorities have four large strategic interventions as part of the ERDF programme, which were approved in 2016 and have continued to be delivered by the lead partners. In particular, the lead partners have committed the majority of the funds across the programme and activity is now under way. Expenditure and outputs reported to date remain limited, but updates on agreed activity indicate that good progress is being made. Discussions are on-going around the development of the new Natural and Cultural Heritage priority, with awards anticipated this year with activity in 2019. With respect to EAFRD, under the Agri-Environment Climate Scheme a total of £148 million has been committed since 2015, with around 90% of applications made in 2017 offered a contract and the Less Favoured Areas support scheme, (LFASS), continues to provide around £65m annually to around 11,300 recipients. Delivery against the woodland targets may appear lower, however this is due to the nature of the activity.

11. Under Inclusive Growth, progress has been mixed. While commitments remain in line with anticipated levels and the corresponding outputs and results reported in approved operations would represent good progress against programme targets, the expenditure and progress reported to date in the ESF programme are lower than had been anticipated. Delivery since the last meeting has continued and updates from lead partners indicate that activity across Inclusive Growth is underway and claims are starting to be submitted and paid, however, the reported progress to date is limited. It is currently too early to consider whether the changes agreed to the Operational Programme, particularly in increasing intervention rates, have had the desired impact. At present, the level of claims submitted are low and the Managing Authority has been working with lead partners to enable the submission and payment of claims. In the EAFRD programme, Scottish Government's Reaching 100% (R100) commitment has reduced the level of projects likely to be supported.

Decisions Required

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- Make observations on progress against Partnership Agreement goals and objectives
- Consider how the reported progress and issues impact on future planning

**JPMC SECRETARIAT
15 MARCH 2018**

SECTION 1: PERFORMANCE AGAINST THE PARTNERSHIP AGREEMENT

1a. Dashboard¹

Financial performance

By fund (€)

Fund	Programme value	Committed/ approved	% of target committed	Spent/claimed
EAFRD	844,685,131.00	743,811,000.00	88.06%	296,839,971.96
ERDF	478,914,103.00	242,877,042.04	50.71%	23,469,745.64
ESF	465,952,940.00	205,522,260.85	44.11%	16,101,719.70
EMFF	107,688,930.00	83,990,978.28	77.99%	18,995,462.11
Total	1,897,241,104.00	1,276,201,281.17	67.27%	355,406,899.41

* Estimate based on assumptions on the overall co-financing rate and EU/UK exchange rate

By growth heading – ESF and ERDF and EAFRD (€)

Growth heading	Programme value	Committed/ approved	% of target committed	Spent/claimed
Smart	493,855,545.00	237,417,825.59	48.07%	41,639,592.38
Sustainable	878,329,439.00	738,416,390.16	84.07%	269,758,781.83
Inclusive	392,438,132.00	195,073,769.58	49.71%	17,345,116.17
TA	24,929,058.00	21,302,317.56	85.45%	7,667,946.92
Total	1,789,552,174.00	1,192,210,302.89	66.62%	336,411,437.30

ERDF and ESF Programmes

H&I Only (€)

Fund	Programme value	Committed/ approved	% of target committed	Spent/claimed
ERDF	114,082,855.00	63,367,124.79	55.54%	2,543,780.85
ESF	82,875,935.00	29,412,898.46	35.49%	1,873,445.57
Total	196,958,790.00	92,780,023.24	47.11%	4,417,226.42

H&I Only (€)

Growth heading	Programme value	Committed/ approved	% of target committed	Spent/claimed
Smart	109,832,480.00	52,715,066.32	48.00%	2,119,883.36
Sustainable	32,670,000.00	17,644,846.86	54.01%	823,766.73
Inclusive	49,982,450.00	18,097,927.32	36.21%	677,097.29
T.A.	4,473,860.00	4,322,182.75	96.61%	796,479.04
Total	196,958,790.00	92,780,023.24	47.11%	4,417,226.42

¹at 31 March 2018

Physical performance

EU 2020 Target*	Baseline	Current
3% of GDP on R&D&I ²	1.41%	1.54%
Greenhouse gas emissions -20% ³	-19.7%	-37.6%
20% of energy from renewable sources ⁴	7.2%	17.8%
20% increase in energy efficiency ⁵	24.0%	41.7%
75% of 20-64 year-olds employed ⁶	73.1%	76.3%
School leaving at less than 10% ⁷	13.8%	13.1%
40% of 30 to 34 year-olds with tertiary education ⁸	46.6%	59.9%
Reduce the number of people at risk of poverty or social exclusion ⁹	15%	17%

² Source: GERD as a percentage of GDP, 2010 and 2016 figures

³ Source: Scottish Greenhouse Gas Emission 2015, 2010 on 1990 and 2015 on 1990 figures

⁴ Source: Energy in Scotland 2018, Share of renewable energy in gross final energy consumption, 2010 and 2015 figures

⁵ Source: Energy in Scotland 2017, B & C (SAP 2009) Energy Efficiency Ratings, 2010 and 2015 figures

⁶ Source: Eurostat, Employment rate (20-64), 2010 and 2016 figures

⁷ Source: Eurostat, Early leavers from education and training, 2010 and 2016 figures

⁸ Source: Eurostat, Population aged 30-34 by educational attainment level, 2010 and 2016 figures

⁹ Source: Poverty and Income Inequality in Scotland 2015/16, Relative poverty (below 60% of UK median income in the same year) in Scottish households - all individuals -, before housing costs, 2010/2011 and 2015/2016 figures

PARTNERSHIP AGREEMENT RESULTS INDICATORS					
Fund	Indicator	Baseline	Target	Committed	Achieved
EAFRD	% of agricultural and forest land under management contracts contributing to carbon sequestration	-	16.14%	-	709,688 10.19%
	% Forest or other wooded area under management contracts supporting biodiversity	-	37.99%	-	56,264 3.99%
	% Agricultural land under management contracts supporting biodiversity and/or landscapes	-	22.73%	-	820,230 14.76%
	Total number of participants trained	-	10,617		13,065
	% of agriculture holdings with RDP support for investments in restructuring	-	16.35%	-	2,202 4.21%
	Rural population benefiting from improved services / infrastructures	-	245,376	-	32,311
ERDF	Number of innovative active enterprises	11,000	12,600 (+1,600)	n/a	11,660
	Additional leverage of BERD	37,000,000	363,000,000	n/a	0 ¹⁰
	No of high speed broadband residential and business subscriptions in the Highlands and Islands	24,499	89,087 (+64,588)	n/a	0 ¹⁰
	Number of SMEs exporting	44,064	94,906 (+50,842)	n/a	55,687
	Employment in Smart Specialisation Sectors	317,250	368,067 (+50,817)	n/a	343,100
	Proportion of journeys to work undertaken by public or active travel	30.7%	32%	n/a	30.6%
	Journeys undertaken using smart ticketing	146,000,000	276,800,000	n/a	0 ¹⁰
	Low carbon investment levered into Scotland by private and institutional investors (EUR)	28,500,000	413,000,000	n/a	0 ¹⁰
	Employment in low carbon sector in Scotland	78,000	81,900 (+5%)	n/a	49,000 ¹¹
	Increase in employment in Sustainable Tourism	26,200	27,510	n/a	n/a
	Positive rating of satisfaction with the quality of green infrastructure in urban areas in Scotland	74%	80%	n/a	74%
	Savings from resource efficiency investments in supported sectors	6,000,000	232,152,000	n/a	0 ¹⁰
	Employment in circular economy	7,200	8,280	n/a	7,500
ESF	Unemployed or inactive people with multiple barriers in training, education or employment after 6 months	2,518	24,320	16,057	326
	(Composite) YEI Participants with sustainable outcome 6 months after leaving (all age groups)	3,580	7,300	8,907	282
	Participants no longer affected by debt as a barrier to social inclusion	700	4,460	5,097	103
	FTEs created in supported community/third sector/social enterprise organisations	11	100	45	0
	total participants gaining ISCED level 3-5 qualification	5,361	34,368	7,867	1,221

¹⁰ No information reported to date

¹¹ New methodology introduced by ONS so direct comparison to target is not appropriate. Baseline and target to be reviewed and revised.

1b. Overall Economic and Political Context for programmes

Changes in the economy and labour market

12. The latest Scottish Government State of the Economy update was published in June 2017¹². GDP data for Scotland confirmed growth overall in Scotland during the Q3 of 2018 of 0.2 per cent, remaining notably below its long run trend rate. The report outlines growth of 0.2% in the service sector, 1.2% in the production sector and a fall of 2.9% in the construction sector.

13. During the third quarter of 2017, unemployment rose and employment fell, however on an annual basis, unemployment was lower than a year earlier and employment higher. Similarly, inactivity rose in the third quarter, but was lower than a year earlier.

14. The disconnect between the strong labour market performance and relatively weak output growth has continued to weigh on productivity growth in Scotland in 2017. Data for Q2 2017 show that labour productivity (the level of output produced per hour worked) fell by 0.6% compared to the previous quarter and 2.2% on a rolling annual basis.

15. Independent forecasts for the Scottish economy present a mixed picture and suggest with slightly higher GDP growth in 2018 of between 0.7% and 1.4%. The range of independent forecasts for the Scottish economy is notably wider than in recent years, however, the forecasts for growth remain below Scotland's long run trend rate of 2%.

16. In the most recent quarter (2017 Q4)¹³:
- Scotland's Gross Domestic Product (GDP) grew by 0.3% in real terms. The equivalent growth rate for the UK as whole during the third quarter was 0.4%.
 - Output in the Services sector grew by 0.5%, output in the Production sector grew by 0.9%, and output in the Construction sector fell by 2.6%.
 - Compared to the same quarter last year, Scottish GDP has grown by 1.1%. Equivalent UK growth over the year was 1.4%.
 - In 2017, annual GDP increased by 0.8% compared to 2016, following growth of 0.2% between 2015 and 2016. The equivalent UK growth rate for 2017 was 1.8%.
 - GDP per person in Scotland increased by 0.2% during the fourth quarter of 2017, compared to an increase of 0.2% in the UK as a whole.

Changes in the Environment

17. The Scottish government has until recently regularly published statistics on a range of environmental indicators in the form of [Key Scottish Environmental Statistics](#). As these statistics are published elsewhere it has been decided following consultation not to continue with this publication. In addition it was been decided to stop updating from 30 September 2017 the associated [Scottish Environment Statistics Online](#) database (SESO). The figures below for 2016 and beyond, updated as of March 2018, were therefore obtained directly from their published source rather than from SESO.

18. They show a generally positive trend on environmental factors ranging from emissions and recycling to water quality, habitats and biodiversity:

Greenhouse Gas Emissions

¹² <https://beta.gov.scot/publications/state-of-the-economy-january-2018/>

¹³ <http://www.gov.scot/Topics/Statistics/Browse/Economy/PubGDP/GDP2017Q4>

19. Scotland's greenhouse gas emissions which continue to fall against an otherwise global increase, now stand at 46.7 million tonnes of carbon dioxide equivalent (MtCO₂e), 8.6% lower than 2013 and 39.5% below 1990 levels. Against a 1990 baseline, in 2015 there had also been a drop in air pollutant emissions of ammonia (10%), PM₁₀ (63%), non-methane volatile organic compounds (66%), nitrogen oxides (71%), carbon monoxide (83%), sulphur dioxide (92%) and lead (99%), although some areas continue to be a challenge for air quality standards.

Household recycling rates

20. Household recycling rates continue to increase (45.2% in 2016, up from 44.2% in 2015). Total Scottish waste landfilled decreased by 11.1% from 4.18 million tonnes in 2015 to 3.72 million tonnes in 2016, an overall decrease of 47.3% from 7.05 million tonnes in 2005. Between 2005 and 2015 biodegradable municipal waste landfilled decreased by 47% (from 2.04 to 1.08 million tonnes).

Drinking water quality

21. Drinking water quality has shown an improvement since figures were first collected in 1991. Drinking water quality standards set a maximum permitted value for certain parameters (such as heavy metals and bacteria) against which water samples can be tested. Between 1991 and 1999, the compliance rate with these standards fluctuated between 98.0% and 98.7%. In 2000, the compliance rate rose to 99% and remained above this level until 2003. Due to the different sampling requirements of Water Supply (Water Quality) (Scotland) Regulations 2001 which came in to force in 2004, data collected before 2004 are not directly comparable with those collected since 2004. Between 2004 and 2012, the percentage of samples that complied increased from 99.4% to 99.9% and has remained at this level up to 2017, the most recent data available.

22. The Private and Public Water Supplies (Miscellaneous Amendments) (Scotland) Regulations 2015 were introduced on 28 November 2015. Their purpose is to limit the contribution that radon in drinking water makes to the total concentration of airborne radon. Radon was therefore included as a parameter for the first time in 2016. Unlike other parameters which are tested for there is no prescribed concentration or value (PCV) for radon present in the water supply but instead a level at which action must be taken to identify the source. In 2016 there were 2 incidences where investigation was required out of total of 150 samples, an incidence rate of 1.3%.

23. The parameter with the second largest percentage of samples failing to comply was lead at 0.87% compared with 1.0% in 2015 and 1.6% in 1991. The vast majority of these failures are related to homes which have lead piping. The incidence of coliform bacteria was slightly higher with 0.26% of water samples failing to comply in 2016 compared to 0.25% in 2015 and 7.0% in 1991. The presence of coliform organisms in drinking water can indicate a breach in the integrity of the water supply system.

Bathing water quality

24. Bathing water quality continues to improve since the introduction of Water Framework Directive in 2013. On the basis of initial assessments for 2016, 85% of the 81 coastal bathing waters met the new minimum European standard with 73% classified as excellent or good quality. Final classification is generally based on four years of data. There has been an increase in the number of coastal bathing waters assessed as excellent quality from 16 over the four years to 2015 to 25 over the four years to 2016. The number assessed as poor quality fell from 17 over the four years to 2015 to 12 over the four years to 2016.

Woodland area

25. Woodland area has increased by 2.1 percentage points from 16.4% of Scotland's land in 1995 to 18.5% in 2017. Figures for woodland area in 2010 to 2017 are based on data obtained from the [National Forest Inventory \(NFI\)](#) map and GIS data for Forestry Commission land and take into account. Woodland area estimates for earlier years have been revised for consistency with the NFI estimates for subsequent years.

Designated Sites, Protected Areas and Scheduled Monuments

26. The condition of features on designated sites in Scotland is assessed by Scottish Natural Heritage's (SNH) [Site Condition Monitoring \(SCM\) programme](#). In 2017 80.3% of protected sites were assessed as being in a Favourable condition, similar to 80.4% in 2016. This consisted of increases in the category SCM Favourable from 66.6% to 66.7%, Unfavourable Recovering from 6.2% to 6.3% and a decrease in Unfavourable Recovering (Management Change) from 7.6% to 7.3%.

27. The area of designated protected sites and number and area of scheduled monuments has also shown an upward trend over the long term. Designated sites, include [Sites of Special Scientific Interest \(SSSIs\)](#), [Special Areas of Conservation \(SACs\)](#), [Special Protection Areas \(SPAs\)](#) and [Ramsar sites](#). Their purpose is to protect flora, fauna, geological or physiographical features of outstanding quality in terrestrial and coastal environments. In 2017, there were 1,423 SSSIs, 253 SACs, 153 SPAs and 51 Ramsar sites in Scotland.

28. The total area of SSSIs in Scotland has steadily increased from 804,000 hectares (ha) in 1991 to 1,022,000 ha in 2017 (about 13% of land in Scotland), similar to 2016. The area of terrestrial and inshore marine SACs rose from 0 ha in 1995 to 963,000 ha in 2004 remained broadly stable rising slightly to 987,000 ha in 2016. There was then a large increase to 2,327,000 in 2017. This was due to the inclusion of a single candidate SAC in September 2016 with an area of over 1,381,000 ha, taking into account the 40,000 ha where SACs overlapped. In 2017, there were 11 offshore SACs covering a total area of 3,095,000 ha, unchanged from 2016. The area of SPAs rose from 26,000 ha in 1991 to 1,297,000 ha in 2011 and has remained broadly similar since.

29. There are also 30 nature conservation Marine Protected Areas that have been designated to protect marine wildlife and habitats, covering an area of 6,140,000 ha - around 50% greater than that covered by SACs.

30. The number of Scheduled Monuments has increased by 73% from 4,698 in 1991 to 8,136 in 2017 (figures are for 31st March each year). The area they account for has increased by 129% over the same period from 7,992 ha to 18,299 ha. Since 2015 there have been 8 historic Marine Protected Areas, covering approximately 87 ha, that have been designated to protect marine historic assets such as historic shipwrecks.

Biodiversity

31. The index of abundance of terrestrial breeding birds, which is a proxy for wider biodiversity, increased from its base value of 100 in 1994 to 122.1 in 2015 but has fallen to 110.9 in 2016, continuing a general decline from the peak of 129.8 in 2008. Decline continues for both wintering waterbirds and seabirds. The index used to measure these also has a base value of 100 in 1994 and most recent figures are 78.8 in 2013 for wintering waterbirds and 64.7 in 2014 for seabirds. This decline is a significant concern, and support for habitats and particular species support.

Changes in the Institutional Landscape

32. On 8 December, The UK and European Union published a joint report on phase 1 of the negotiations on the UK leaving the EU, outlining an agreed proposed methodology for calculating the financial settlement. It confirms that the UK will continue to contribute and participate in the implementation of the EU annual budgets up to 2020 as if it was still in the EU.

33. Should formal agreement be reached on this as part of the overall Withdrawal Agreement, we anticipate that Scotland will continue to benefit from programmes and funding covered by the Multi-annual Financial Framework as it would if the UK continued to be a Member State.

34. The UK Withdrawal from the European Union (Legal Continuity) (Scotland) Bill, commonly referred to as 'the Continuity Bill', was introduced in the Scottish Parliament on Tuesday 27 February. The Scottish Government has not rejected the EU (Withdrawal) Bill. The Scottish Government's preference is to be able to rely on the EU (Withdrawal) Bill. The Scottish and Welsh Governments continue to seek an agreement with the UK Government, which would allow the necessary consent to be given. In this scenario, the Scottish Government would seek to withdraw the Continuity Bill. The Scottish Parliament agreed to the bill being introduced and it passed Stage 1 on the Wednesday 7 March and stage 2 was completed on the 14th March. Stage 3 on Wednesday 21 March

On 1 April 2018, Scottish Government launched the Fair Start Scotland employment support service which reflects the powers devolved to Scottish Government through the 2016 Scotland Act. This programme will work alongside ESF funded activity, with no change to the scope of the programme and ESF priority 1 continuing to provide more intensive support to participants with multiple barriers.

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

35. Progress towards the result indicators is noted in section 1a. ERDF result information is provided in line with the OP, based on the latest published information. In most cases, this reflects the position in 2016 due to reporting schedules. On the ERDF results, it has always been anticipated that the impact of the activity will be felt over time and therefore progress is broadly as anticipated. Reporting against the ESF results will emerge over time as participants complete the intervention and progress is captured and reported by lead partners; commitment levels have evolved based on delivery to date and remain in line with targets.

36. Within the ESF and ERDF programmes, the progress and commitments towards the PA and OP level targets is being reviewed as part of the assessment of the second phase of delivery.

37. In section 1a, no performance has been reported against *Increase in employment in Sustainable Tourism* as the indicator relates to the new Investment Priority (6c) which not approved until the end of 2017 and no activity has commenced.

38. As shown in section 1b, there have been significant shifts in the wider economy since the development of the programmes, which have altered the level of demand, particularly in the ESF programme. While economic growth remains slow, unemployment is close to record lows, with a particular fall in youth unemployment, therefore reducing the pool of participants requiring support, increasing the levels of support required and making progress into work more difficult.

39. The State of the Economy report continues to emphasise the need for increased skills and improved productivity growth; this is reflected in Scotland's Economy Strategy and the continued priorities of the Operational Programmes, including the changes agreed in December 2017.

40. Across the ESF and ERDF programmes, the slow rate of claims during 2017 and continuing in early 2018 remains a challenge. This presents a particular challenge this year as the programmes are subject to the targets in the Performance Framework, with individual priorities' grant allocations at risk if sufficient activity is not delivered and reported by the end of the year. Approved operations are sufficient that anticipated delivery and expenditure would meet the targets, however projections based on submissions to date indicate that this may not be delivered and reported. In particular, it is anticipated that ERDF Priority 2 (Broadband) and ESF Priority 4 (YEI) are unlikely to meet the levels required to comply with the Performance Framework.

41. Performance in the EARFD programme is progressing well with substantive levels of commitments for smart growth and good levels of commitments being made under Sustainable growth. However, the future of the Less Favoured Area Support Scheme requires careful consideration to ensure vital support can be delivered in the future to remote and fragile upland areas. Concerns exists about the impact of the UK's withdrawal from the EU, with a lack of clarity from the UK Government on funding guarantees for the programme after March 2019.

SECTION 2: PERFORMANCE IN DETAIL

2a. Smart growth

Progress and performance¹⁴

Outcome indicator	Target 2023	Committed	Movement in period	% committed	delivered
Food and Drink chain operations supported for investment (EAFRD) ¹	115	-	31	-	86
Number of participants in training (EAFRD)	10,617	-	947	-	13,065
Number of enterprises cooperating with research institutions (ERDF)	1,200	48	-	4.00%	-
Number of enterprises supported to introduce new to the firm products (ERDF)	1,050	633	-	60.29%	-
Innovative Services in Cities Developed (ERDF)	20	56	2	280.00%	-
Additional households and businesses with broadband access of at least 30Mbps (ERDF)	11,833	11,833	-	100.00%	-
Number of enterprises receiving financial support other than grants (ERDF)	685	1,499	-	218.83%	173
Number of new enterprises supported (ERDF)	1050	1,472	- 150	140.19%	93
Employment increase in supported enterprises (ERDF)	10,050	10,929	- 50	108.75%	426
Total participants with ISCED level 5 and above qualification upon leaving (ESF)	13,433	4,696	2,080	34.96%	104

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 are taken the 2016 Annual Implementation Report from for the SRDP 2014-2020.

Drivers of progress

42. Delivery of the ERDF – Innovation; Broadband; Business Growth – and ESF – Developing Scotland’s Workforce – Priorities under Smart Growth has continued in line with previously approved operations.

43. Delivery under Innovation, Smart Cities and Business Growth has continued, with activity led by the enterprise agencies under Innovation and Business Growth, and local authorities through additional Business Gateway activity and the *Smart Cities* programme. The funds supported through the *SME Holding Fund* have been very active in supporting SMEs and this is outlined in the performance report, including case studies of the types of recipients receiving support under the programme.

44. The delivery of higher level qualifications aligned with the needs of growth industries and sectors in Scotland is continuing under the *Developing Scotland’s Workforce* (DSW) interventions delivered by Scottish Funding Council and Skills Development Scotland.

¹⁴ ESF/ERDF information updated to 31 Mar 2018

45. The majority of the approved targets in Innovation, Business Growth and Developing Scotland's Workforce are anticipated to be met by approved operations to date and lead partners have been cautious about submitting claims, therefore, while updates from operations indicate projects are progressing, there is limited evidence of this in expenditure to date or progress against programme targets.

46. With respect to Smart growth and the EAFRD programme; a number of Smart growth contributing schemes continue to perform well including; the Food Processing and Marketing Grant (FPMC) which, as at March 2018, has committed over £37m toward a variety of food projects and it is expected will create over 800 FTE jobs. The New Entrants schemes, assisting existing businesses with support for infrastructure has seen 452 successful applications, whilst 257 young farmers and new entrants have been successful in attaining a business start-up grant. The Knowledge Transfer Innovation Fund (KTIF) has committed £4.79m across 17 applications.

Prospects of meeting Partnership Agreement Objectives

47. Under the Innovation priority the lower level of commitments during the first phase, following the Scottish Funding Council proposed activity not being fully approved, remains a concern. This is reflected in the level of anticipated outcomes in some indicators being lower than expected. However, work is underway to identify additional activity, in particular following the changes to the Operational Programme approved in December 2017, complementing the Manufacturing Action Plan.

48. In the Business Growth and Developing Scotland's Workforce priorities, feedback from lead partners indicates that more activity has taken place, but as is the case across all activity requiring verification of participants or enterprises receiving support, lead partners and delivery agents have struggled to provide the level of evidence required. The increased emphasis on evidencing activity is required in line with the Commission's requirements for this programme and the MA has sought to work with lead partners to provide additional clarification and advice to ensure this can be provided.

49. To date, the higher level (ISCED level 5 and above) skills ambitions of the programme have not materialised in approved projects or delivery to date; in particular, targets in H&I are less ambitious than the programme targets with participants leaving school with lower levels of skills than anticipated. As part of the discussions and revisions of the Strategic Interventions, the MA has challenged the lead partners to deliver higher levels of support, in line with the Operational Programme and Programme for Government.

50. Looking ahead to the remainder of the programme, it is proving difficult to determine the demand amongst public sector bodies given reductions in public sector budgets. The *SME Holding Fund* activity has continued to show high demand for additional funds and another request for a significant allocation for the Strategic Intervention has been submitted.

51. The focus of the projects supported by the Broadband priority has been shifting following the announcement of Scottish Government R100 programme. The role of ERDF will be in continuing to provide innovative and high tech solutions for those hardest to reach areas, and looking to develop practical and commercial solutions for the next generation digital technology to ensure that the Highlands & Islands as a region is able to benefit from the progression in digital technology and services into the future.

52. Within ERDF and ESF activity under Smart Growth, the SME Holding Fund is the main pan-Scotland project. The project team within Scottish Government have reported that commitments under the Scottish Co-investment Fund and the Scottish Venture Fund which are operated by Scottish Enterprise within H&I remain low. The project's Advisory Group, which oversees the programme and includes representation from Highlands and Islands Enterprise, has noted the issue and SE and HIE have put together an action plan with a number of activities planned to stimulate demand . Alongside this, expenditure reported in section 1 is lower than in the rest of Scotland; similar to the issue reported to the November meeting, this is affected by no claims having been submitted and paid to HIE or the Scottish Government broadband operations.

53. EAFRD continues to make good progress with no particular concerns.

2b. Sustainable Growth

Progress and performance¹⁵

Outcome indicator	Target 2023	Committed	Movement in period	% committed	delivered
Area of Woodland creation (ha) (EAFRD)	36,800	-	3,294	-	6,862
Area of farmland supported by agri-env (ha) (EAFRD) ¹	1,333,100	-	119,094	-	1,371,224
Cycle networks or walking paths constructed (ERDF)	100	53	-	53.00%	-
Low carbon travel and transport hubs supported (ERDF)	20	6	-	30.00%	-
Low carbon projects receiving non- financial support (ERDF)	698	411	-	58.88%	7
Low carbon change leader/demonstration projects delivered	25	19	- 28	76.00%	1
Greenspace created or enhanced in urban areas (Ha.) (ERDF)	143	70	-	48.95%	-

¹ this measure will include double counting if a land manager is pursuing more than one option for land improvement, including under on-going commitments from the SRDP 2007-2013.

Drivers of progress

54. The ERDF activity has continued to be delivered by four approved strategic interventions – *Low Carbon Infrastructure Transition Programme, Low Carbon Travel and Transport Programme, Resource Efficient Circular Economy and Green Infrastructure* – in line with approved projects. All four strategic interventions are committed to spend around half of the programme allocation and are anticipated to deliver corresponding outcomes.

55. All four of the approved strategic interventions are predominantly based on providing support to final recipients to deliver capital expenditure. As a result of the selection process to approve recipients and for recipients to procure and commence activity, the level of reported activity appears lower than anticipated, however regular updates from lead partners are provided to confirm the levels of grant committed and these are monitored by the MA.

56. As part of the changes to the Operational Programme, the Inclusive growth theme will also include activity under the new Natural and Cultural Heritage priority. To date, no funds have been committed under the priority, with programme development work taking place and the pipeline of activity outlined at the time of the proposed OP changes appearing promising.

With respect to EAFRD and Sustainable Growth; Under the Agri-Environment Climate Scheme a total of £148 million has been committed since 2015 to fund a range of agri-environment and organic activities that help to maintain and enhance our rich and natural environment. Around 90% of applications made in 2017 were offered a contract and we hope to see continuing high success rates this year. Less Favoured Areas support scheme, (LFASS), continues to provide around £65m annually to around 11,300 recipients. This provides support for fragile and remote areas of Scotland, helping to sustainably manage these landscapes and maintain remote communities. There has also been good progress

¹⁵ ESF/ERDF information updated to 31 Mar 2018

through the Forestry Grant Scheme, with an increase in commitments of c£76M through the Forestry Grant Scheme in the last year.

Prospects of meeting Partnership Agreement Objectives

57. As noted, the nature of the activity under this area means that there is a greater lag between operation approval, project selection and delivery, which means that reported outputs are behind the expected levels despite positive reports on the delivery to date. In addition to activity outlined in the table above, the total organisations and enterprises receiving non-financial support under Thematic Objective 6 is already 1,316 of a projected 2,304 towards a target of 4,075.

58. Similarly, the progress towards expenditure targets is slower than anticipated but without any significant blockages being identified by the MA or lead partners. As the majority of the expenditure is for capital expenditure or other high value items, it is expected that once projects are underway, there will be a shorter turn-around between expenditure being incurred and declared.

59. The ERDF activity under sustainable growth is delivered by four pan-Scotland Strategic Interventions. Each has reported to the MA on the commitments and expenditure to date in each area and actions which are being taken to ensure delivery across the programme. Since the last meeting, Transport Scotland have taken action to reduce the contribution required from applicants through an increased intervention rate and providing additional match funding from their own resources. This has led to an increase in applications and the full current H&I allocation is expected to be committed through an on-going call. Alongside this, Zero Waste Scotland's Resource Efficient Circular Economy Strategic Intervention has not identified any major issues between H&I and the Rest of Scotland.

60. Both the *Green Infrastructure* (Scottish Natural Heritage) and *Low Carbon Infrastructure Transition Programme* (Scottish Government) have identified lower levels of commitment in the H&I region. Within *Green Infrastructure*, the lead partner is working with potential projects with the hope of reaching full commitment. Within *Low Carbon Infrastructure Transition Programme*, the Innovative Local Energy Systems call was delivered last year with sessions targeting communities in H&I and a new Low Carbon Innovation Funding Invitation call was open until 30 April 2018 with events targeting the H&I region.

61. EAFRD continues to make reasonable progress. It appears that the woodland creation is not progressing well, however, the figures in the table above are against spend, and due to the nature of woodland creation, spend is made over a number of years. According to latest commitment figures, almost 18,000 ha of woodland is expected to be created.

2c. Inclusive Growth

Progress and performance¹⁶

Outcome indicator	Target 2023	Committed	Movement in period	% committed	delivered
(Composite) Participants with multiple barriers entering training, education or employment (ESF)	35,114 ¹⁷	44,512	- 659	126.76%	1,749
(Composite) All types of YEI participant completing intervention (ESF)	14,091	18,420	- 870	130.72%	2,299
Deprived or fragile communities supported (ESF)	265	203	- 9	76.60%	-
Disadvantaged participants in workless, lone parent or low income households with improved money management skills (ESF)	13,014	20,859	9,718	160.28%	339
FTEs created in supported enterprises/organisations (social enterprise)	100	45	-	45.00%	-
Number of LEADER operations supported (EAFRD)	1,045	-	31	-	294

Drivers of progress

62. Delivery of the ESF Priorities under Inclusive Growth – Employability; Poverty and Social Inclusion; Youth Employment Initiative – has continued in line with previously approved operations.

63. The employability pipelines have been rolled out across Scotland and continue to provide individuals with the competencies and skills required to enter and progress within the labour market. The pipelines are tailored to suit the needs of the local area and may therefore have a focus on a particular target groups or pipeline stage. Local authorities are using a mix of in-house delivery, challenge funds and procurement within their SIs. This is complemented by the National Third Sector Fund (for larger third sector organisations delivering interventions across multiple areas), which continues to deliver employability activity not covered by the local pipelines.

64. All operations under promoting social inclusion and combating poverty are now underway. Funding under this intervention is dispersed via local authorities (working within their individual local areas), the Scottish Government and Big Lottery Fund Scotland (both pan-Scotland). An update on the February meeting of the YEITC is provided separately. Following changes to the approved operations, the total grant committed is around £52 million (c. €59 million), which confirms that the full allocation (€92 million) will not be spent by the YEI operations.

65. Across the ESF programme, there has been noticeably slow reporting of expenditure and outcomes. Levels of commitment against expenditure and both outputs and results are sufficient to meet both the performance framework targets at end 2018 and make significant progress against the wider programme targets.

¹⁶ ESF/ERDF information updated to 31 Mar 2018

¹⁷ This relates to ESF Priority 1 only. Previous update included elements of other priorities.

66. With respect to EAFRD and inclusive growth; as of March 2018 LEADER has committed £35m to local and community projects helping to generate growth. Due to the rollout of the R100 programme the Broadband scheme continues to spend slower than anticipated, however one major project is continuing with anticipated cost of £2.5m, which will help provide community with much need internet access which will contribute to inclusive growth across Scotland.

Prospects of meeting Partnership Agreement Objectives

67. As shown in the expenditure, results and outputs reported above, the actual delivery reported to date against the ESF programme is significantly lower than anticipated. Feedback from lead partners indicates that more activity has taken place, but as is the case across all activity requiring verification of participants or enterprises receiving support, lead partners and delivery agents have struggled to provide the level of evidence required. The increased emphasis on evidencing activity is required in line with the Commission's requirements for this programme and the MA has sought to work with lead partners to provide additional clarification and advice to ensure this can be provided.

68. As part of the second phase of applications, the MA has been meeting with lead partners to discuss the delivery to date. This will inform revisions and new submissions and it is hoped that a clearer picture of the anticipated outputs and results will be available when additional funds are committed but initial, anecdotal, suggestions are that there may be a shift towards participants entering employment over education or training.

69. Reported progress against Poverty and Social Inclusion targets remains notably low. In part, this is a result of the delivery model used, where the time taken to undertake procurement exercises or to run calls for applications has delayed the actual start date of delivery.

70. Under YEI, the changing economic conditions have meant that demand has fallen noticeably, reducing the level of expenditure and activity anticipated. Despite this, the total projected outputs and results remain above the programme targets. Whether these projections will be met will be confirmed through the remainder of the year.

71. In ESF Priority 2 (Poverty and Social Inclusion), two competitive pan-Scotland projects are delivered by Scottish Government. In both programmes, it has been noted that commitments in the Highlands and Islands region are lower than in the rest of Scotland. Under *Growing the Social Economy*, commitment in H&I is over 80% but lower than the rest of Scotland, the project team have noted this and are working with the sector on the later phases of the programme and anticipate full absorption. In the *Empowered Community-Led Inclusion* Strategic Intervention, under 20% of the total value of the H&I allocation has been committed. MA have raised the issue with the project team, who have identified that the timing of the first round and the success of HIE's Strengthening Communities programme reduced demand but did not identify any gaps or issues in the application process or providing match funding which caused more fundamental issues. A second phase, exclusively aimed at H&I and working more closely with HIE, local authorities and community planning partnerships was launched on 8 April, with a closing date of 1 June.

72. EAFRD continues to make reasonable progress, although fewer projects than anticipated will be supported by the broadband scheme. However, this is due to the rollout of the R100 programme meaning that the digital outcomes are still expected to be achieved, albeit outwith EAFRD.