ANALYSIS OF PROGRAMME PERFORMANCE

DECISIONS REQUIRED

1. None. The paper is presented for discussion of the emerging trends in performance of the programmes.

OVERVIEW

2. All four ESI Fund Programmes in Scotland (including the Scottish component of the UK wide European Marine and Fisheries Fund) are now approved and in progress, with early indications of performance available. This paper sets out that performance by EU 2020 growth theme – Smart, Sustainable and Inclusive – and explicitly links performance back to the achievement of Partnership Agreement objectives and results, as well as individual programme performance indicators at more immediate outcome level.

3. Although still very early in the programme to be drawing long-term performance conclusions, there are some positive signs on projections against result and outcome indicators. For example, the Youth Employment Initiative looks set to help more young people than initially programmed; and a change in a local approach to financial inclusion might both help more individuals and provide them with a sustainable peer support network for dealing with debt issues.

4. However, there are also some more questionable projections, including exceeding the programme target for numbers of new business supported (228% of target) in the first half of the programme alone, and before applications have been received from the enterprise agencies. This may suggest that what is being proposed and carried out on the ground is broader and more superficial than required to genuinely stimulate new SME's to grow. Areas of concern like this are flagged in the analysis, and will be kept under review to see if projected results materialise and are of sufficient quality to be deemed a success at Programme level.

5. The wider world does and will continue to have an impact on Programme performance. The recent economic downturn, local economic shocks, and the oil price depression are all being felt in the target groups of either businesses or unemployed individuals for ERDF and ESF. The regulatory requirement to change the Less Favoured Areas Support Scheme under EAFRD to an Areas of Natural Constraint Scheme will impact from mid-term. And of course the uncertainty over the UK referendum on EU membership may require changes to the levels of ambition of what can be delivered over the long term. These factors are all noted with their potential impacts under discussions of the relevant thematic objective and programmes.

DECISIONS

6. None required. The JPMC is invited to discuss emerging trends in performance of the programmes. The JPMC is also invited to comment on the style of reporting in ongoing efforts to improve it and align it with the Partnership Agreement.

JPMC Secretariat
May 2016

Dashboard

Financial performance by fund (N+3)

Fund	Projected spend (N+3, 2014-15)	Committed/ approved	% of target committed	Spent/claimed
EAFRD (Including VM)	€223,703,876.00	138,232,200	61.8%	-
EMFF	-	-	-	-
ERDF	€ 129,545,246	83,735,326.74[1]	64.6%	-
ESF	€ 159,838,366	194,344,089.57	121.6%	-
Total	€513,087,488.00	416,311,616	81.1%	-

1 a further €75 million of applications anticipated by June would take this to 123% of N+3 target

Financial performance by growth heading (whole programme)

Growth heading	Programmed spend	Committed/approved	% of programmed spend	Spent/claimed
Smart	470,814,808	55,805,750.13	11.85%	-
Sustainable	901,980,079	177,979,165.32	19.73%	-
Inclusive	338,861,882	182,526,700.90	53.86%	-
T.A.	24,429,366	-	0.00%	-
Total	1,736,086,135	416,311,616.35	23.98%	-

Physical performance
EU 2020

EU 2020 Target*	Baseline	Current
3% of GDP on R&D&I	**1.58 %**	1.55 %
Greenhouse gas emissions -20%	**-24.3 %**	-34.4 %
20% of energy from renewable sources	**7.6 %**	11.6 %
20% increase in energy efficiency	**24.1 %**	36.6 %
75% of 20-64 year-olds employed	**73.9 %**	75.5 %
School leaving at less than 10%	**14.5 %**	12 %
40% of 30 to 34 year-olds with tertiary education	**53.8 %**	56.4 %
Reduce the number of people at risk of poverty or social exclusion	**15 %**	14 %

*****_Scotland's programmes contribute directly to targets on R&D&I, renewable energy, employment, school leaving and reducing the risk of poverty. Greenhouse gas emissions are substantially affected by a much wider range of activity, although land management under EAFRD does contribute somewhat to this._

Partnership Agreement Results

Fund	Indicator	baseline	target	committed	Achieved
EAFRD	% of agricultural and forest land under management contracts contributing to carbon sequestration	-	16.1%	-	
	% Forest or other wooded area under management contracts supporting biodiversity	-	38%	-	
	% Agricultural land under management contracts supporting biodiversity and/or landscapes	-	22.7%	-	
	Total number of participants trained	-	10,617	8,933 (56 Events)	8,933
	% of agriculture holdings with RDP support for investments in restructuring	-	16.4%	-	
	Rural population benefiting from improved services / infrastructures	-	245,376	-	
ERDF	Number of innovative active enterprises	11,000	12,600 (+1,600)	-	
	Additional leverage of BERD	37,000,000	363,000,000	-	
	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)	+167	
	Employment in Smart Specialisation Sectors	317,250	368,067 (+50,817)	+222	
	Proportion of journeys to work undertaken by public or active travel	30.7%	32%	31.45%	
	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	£639,600,000	
	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%	-	
	Savings from resource efficiency investments in supported sectors	£6,000,000	£232,152,000	£158,400,000	

	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	11,000	
	(Composite) YEI Participants with sustainable outcome 6 months after leaving (all age groups)	5,997	13,315	15,825	
	Participants no longer affected by debt as a barrier to social inclusion	700	4460	3238	
	FTEs created in supported community/third sector/social enterprise organisations	11	100	150	
	total participants gaining ISCED level 3-5 qualification	5,361	34,368	11,472 (32.5%)	

Economic, Social and Environmental Context

1. Scotland's economy grew by 1.9% in 2015, consistent with independent forecast estimates and in line with Scotland's trend rate of growth. Annual growth in the final quarter of the year saw the Services and Construction sectors both grow by 0.8% and 10.8% respectively, whilst the Production sector contracted by -2.0%.

2. Scotland is also seeing a recovering and relatively strong labour market, with unemployment starting to stabilise at or around its historical average of between 5 and 6% of the economically active population. There have also been recent marked improvements in youth unemployment, with the rate falling to the lowest since 2008, and dipping to under 16% in South West Scotland. The latest labour market statistics (December to February 2016) show that the Scottish employment rate decreased by -1.0 percentage points over the quarter to 73.9%, whilst both the unemployment and inactivity rates increased over the quarter to 6.2% and 21.1% respectively.

3. This growth however has occurred against a backdrop of a more challenging and difficult external environment. Sterling appreciation and the more muted global economy has impacted on export activity, particularly in manufacturing. The fall in global commodity prices has also impacted on steel and paper production in Scotland and the sustained fall in oil prices has had a material impact on the broader energy sector and beyond. In particular, the impact on the profitability of the sector has led to substantial reduction in investment intentions and a requirement to reduce operating expenditure within the Oil & Gas sector, which has impacted directly on employment and the wider supply chain. The outlook for this sector in 2016 will remain challenging whilst oil prices remain at current low levels.

4. The Scottish Business Surveys show a mixed picture with the Bank of Scotland PMI survey suggesting that output had contracted slightly during February – with contraction in both services and manufacturing - but the CBI industrial trends survey suggests that business optimism was up to its highest level since October 2013.

5. Growth overall in Scotland is forecast at just below 2% for 2015, 2016 and 2017, which reflects a slowdown relative to earlier forecasts. Though labour market trends remain broadly positive, the external pressures on manufacturing and oil and gas may feed through more strongly to growth overall in Scotland given the higher profitability (value added) associated with these sectors.

6. The external economic environment remains key to the outlook in 2016 for Scotland both in terms of global demand (in particular China) and the impact of monetary tightening in the US on wider global economic sentiment. This has been seen recently in local shocks to the steel sector, with two mooted and then averted closures in North and South Lanarkshire; the ongoing turmoil in the oil and gas sector and the significant job losses to the North East; and the closure of manufacturing and energy production sites in the Falkirk area. Each of these shocks is different and hits in a different skills and growth context, but it is important that the programmes stay alive to and can respond to such local changes, and any further job and business losses.

7. As well as considering immediate and mid-term economic issues, longer-term environmental performance will have a significant impact on both social wellbeing and the economy, and should help direct Programme efforts.

8. Against a global picture of increasing emissions, Scotland's net emissions of greenhouse gases in 2013, including emissions from international aviation and shipping, were estimated to be 53.0 million tonnes of carbon dioxide equivalent (MtCO2e), 3.6% lower than 2012 and 34.3% below 1990 levels. However, emissions is not a national issue, and as

eight of the ten warmest years recorded in Scotland have all occurred in the 21st century, with 2014 the warmest year on record, this clearly continues as an area for intervention.

9. Between 1990 and 2013, there have also been decreases in air pollutant emissions of ammonia (28%), PM_{10} (53%), non-methane volatile organic compounds (66%), nitrogen oxides (67%), carbon monoxide (81%), sulphur dioxide (87%) and lead (99%). However, figures indicate that UK Air Quality Strategy (AQS) Objectives were not met at some Scottish sites in 2014. Recent global events have demonstrated the negative impact on people's health with such pollution.

10. The household waste recycling rate in 2014 was 42.8%, up from 42.2% in 2013. For the first time, in 2014 less than half of household waste was landfilled. Between 2005 and 2013, total waste landfill decreased by 45% and biodegradable municipal waste landfill decreased by 50%. This suggests the intervention to support industrial and business resource efficiency is correctly targeted and will complement domestic funding efforts aimed at household waste.

11. Water quality is improving gradually. Between 1992 and 2014, the percentage of samples from consumer taps containing coliform bacteria fell from 4.64% to 0.45% and the percentage containing Escherichia coli (*E.coli*) fell from 2.08% to 0.02%. In 2014, the proportion of river length classed as slightly polluted, polluted or severely polluted in Scotland was 3.2% compared to 3.7% in 2013, based on the new water framework directive standards. In 2015, interim results show that 20% of Scotland's 84 designated bathing waters were classed as poor. Water quality, particularly from diffuse pollution, continues to be an area of intervention for EAFRD to sustain these improvements.

12. In 2015, 18.4% of Scotland's land was woodland, compared with 16.4% of Scotland's land in 1995. The area of designated protected areas and number and area of scheduled monuments has also shown an upward trend over the long term. As at 31st March 2015, 79.3% of natural features on protected nature sites were assessed as being in favourable condition, up from 76.0% in 2007.

13. The abundance of terrestrial breeding birds, which is a proxy for wider biodiversity, has shown a long term increase of 3.6% between 1994 and 2013, with a 27% increase in the abundance of terrestrial breeding birds between 1994 and 2008 followed by a 18.4% reduction to 2013. The number of wintering waterbirds rose between the mid-1980s and mid-1990s, reaching a peak in 1997. Since then there has been a steady decline, with the abundance falling 27% between 1997 and 2012. The abundance of breeding seabirds has also declined by 51% between 1991 and 2013[1]. 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.

[1] More detailed information on Scotland's environment can be found on the Scottish Government Environment Statistics page and on Scotland's Environment Web.

PERFORMANCE IN DETAIL – SMART

Outcome indicator	Target 2023	Committed	delivered	Movement in period
Food and Drink chain operations supported for investment (EAFRD)[1]	115	19	33	33
Number of participants in training (EAFRD)[2]	10,617	8,933 (56 Events)	8,933	8,933
Number of enterprises cooperating with research institutions (ERDF)	1200	-	-	-
Number of enterprises supported to introduce new to the firm products (ERDF)	1050	-	-	-
Innovative Services in Cities Developed (ERDF)	20	-	-	-
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	2021	-	-
Number of new enterprises supported (ERDF)	950	2166	-	-
Employment increase in supported enterprises (ERDF)	9400	7448	-	-
Total participants with ISCED level 5 and above qualification upon leaving (ESF)	13433	3831	-	-

[1] 19 new projects were approved in 2014 and 2015 but none had started. 33 projects were being supported – these were approved under the 2007-2013 programme
[2] events were approved under the 2007-2013 programme but paid for from the 2014-2020 programme budget.

Relevant changes in the Scottish economy and environment

- BERD decrease over the past year, following years of growth – but remains a low base at 1.55 % of GDP
- The proportion of addresses where next generation broadband is available has continued to increase – up 22% in a year to 85%. Main gaps remain in remote rural areas.
- The number of businesses in Scotland was at a record high in March 2015 with a 7.8% increase in the number of businesses over the last year – driven by growth in the smallest of these businesses
- International exports have decreased 3.2% to 2014, driven by a fall in manufacturing exports

Overview of Performance

14. Smart Growth is a broad package in the Scottish programmes, ranging from investment in innovation and leadership for SMEs through to knowledge and innovation transfer between land managers. Scotland also sees the European Social Fund making a strong contribution to Smart Growth, through support for higher and advanced skills in Smart Specialisation sectors to support productivity increases (as well as offering enhanced social and economic opportunities for skilled individuals).

15. Through EAFRD Schemes, ERDF and ESF Operations, the total amount now approved for Smart growth stands at €55.8 million, or 11.85% of the target. This is below expectations, but largely owing to a number of large scale applications for ERDF which have not yet been settled. These are expected to be approved by June, adding in the region of €75 million to SMART, and taking the total approved to €131 million and 28% of the programme. As ERDF approved for half the programme at a time, and EAFRD undertakes rolling approvals, this would be more in line with programmed values.

16. This financial position of some outstanding expectations is reflected in the physical performance, where there is no progress even in the shape of commitments to report against indicators for innovation, cities (a further €25 million programmed) and digital. Digital activity has begun under EAFRD, however, with 11 community groups currently working with Community Broadband Scotland to assess options for remote rural connectivity and usage/uptake.

17. On rural innovation, the *Knowledge transfer and Innovation scheme* has approved 9 projects to a total value of £3.5m in total, or €1.3 million EAFRD only. Projects approved include the Scottish Crofting Federation Skills Boost to provide dedicated courses and skills for crofters; Soil Association Scotland to deliver knowledge exchange and promote best practice over 3-years; AHDB Dairy project to improve the competitiveness and resilience of Dairy Farms in Scotland; the Monitor Farm programme, that will serve to improve productivity and farm business profitability within Scotland; and projects targeting different sectors including lamb, dairy, potato and pig efficiencies. These projects will promote sharing and implementation of innovative ways of improving working practices.

18. For the remainder of supported areas, numbers of outputs and outcomes are projections only at this stage in the programme, based on applications for funding. There are some interesting trends emerging, notably applications exceeding the programme target for new SME's supported (228%); and firms receiving support other than grants (400%).

19. This is despite expected applications from Scotland's main enterprise agencies and an anticipated application for an SME holding fund not yet being approved, meaning that projected numbers will likely rise even higher. As generating new growth businesses is one of the aims for the ERDF programme, this might be very positive news, showing that linking local and national innovation and business competitiveness support, will deliver better results.

20. However, this sits against a persistently low Scottish business investment figure generally and some caution is required. It might mean the type of intervention being supported is superficial and not enough to embed a long-term cultural change towards growth and investment; it might be that the projected results will not materialise (that business is hard to engage, for example); or it might simply be that the target setting methodology is not suitable.

21. Two further factors may complicate the picture over the next year – one is the impact on investor confidence of falling commodity prices, which may detract from co-investment in SME's through financial instruments. The other is the establishment of a more complex but sustainable holding fund structure for financial instruments in Scotland, which may in the long term make it easier for other funds such as EAFRD to invest in financial instruments.

22. The SME Holding Fund is a development of Financial Instruments used in previous ERDF programming periods to allow a wider range of support and a wider range of investors for SME's. Different products from the holding fund will invest £100 million (£40 million, or

€51.6 million, of ERDF) to provide microcredit finance up to £25,000, loans up to £100,000 and equity investment up to £2 million. The Holding Fund will be managed in-house by a Directorate of the Scottish Government with extensive expertise in managing European-funded financial instruments, and in attracting partner investment. Delivery partners appointed through procurement will distribute the resources directly to eligible SMEs. It is anticipated that a final decision on the appointment of delivery partners, following a full procurement assessment, will be made in June 2016, and this is likely to see the outcome figures revised upwards as greater certainty over investment plans emerges.

23. It will not be possible to see a clear picture of what is planned or being achieved on the ground until the remaining operation applications are received and until claims are submitted, starting from summer of 2016. Given the initial figures, this may be an area of support which should be subject to in-depth review at mid-term of the ability of the Funds to effect transformational change and to support genuinely different areas of activity from domestic funding.

24. Food and drink chain operators have been supported under EAFRD, with 31 projects worth £13m being approved, or €8.35m EAFRD, for support since the new scheme launched in May 2015. These projects will deliver sustainable economic growth in the Scottish food and drink sector by supporting 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.

25. Finally, although frequently bracketed with inclusive growth, investment in Skills in Scotland has a distinctly ‘smart’ flavour, and is therefore reported here. Developing Scotland’s Workforce has been awarded £19m (€24.5 m) from the European Social Fund and this is expected to be matched by the Lead Partners Scottish Funding Council and Skills Development Scotland to create an overall investment of around £78m (€100 m).

26. This investment will ensure that Scotland has the right skills base for its growth sectors. By matching investment in both vocational and academic skills to regional growth plans, business will have access to a highly qualified workforce; and young people, including the 35,000 individuals who will directly benefit from funded places, will have improved chances of finding fulfilling and well paid work. Current projections favour participants with lower levels of qualifications (ISCED level 2 and below) over those who already have some qualifications. As the aim is to move every participant up the scale, this is not necessarily an issue, but should be monitored to see whether this group of participants stay on to complete ISCED levels 3-5; and whether additional wrap-around care might be required, for example around childcare.

27. In the process of assessing detailed applications for this funding, it has become apparent that some regions are more advanced in their skills planning; and that funding only Smart Specialisation related places is proving challenging within existing structures and work practices for some further education organisations. The apprenticeship arm of this intervention is operating well; but the further education side is currently only approved for one year (rather than for the first half of the programme) to allow the regional skills plans and the focus on ISCED level 3-5 to bed in before further approvals are made.

Discussion and Conclusions

28. Whilst early days in terms of EU programmes, there is already an emerging sense that some areas of funding are not behaving as anticipated during programming.

29. Strategic Interventions and in most cases Operations under ERDF and ESF are not approved until the mid-term of the programme, and as the aim is transformational change, it is not yet worth questioning that decision. However, some areas may need more in depth study in the run-up to mid-term to ensure that activity, on for example supporting SME's to innovate is having a real impact on behaviours rather than, for example, measuring attendance at training courses for business. As noted above, higher skills are also already subject to together scrutiny to ensure that what is delivered is what was planned.

30. The same is true for Financial Instruments, where it is not currently possible to assess performance or investor intentions. We know that take-up has been good in the past, but also that returns have been slow to materialise, preventing recycling of the funds and helping fewer businesses than intended. The new holding fund should drive a change in investor behaviour, helping smaller investments alongside business angel support, but if funds other than ERDF are to use the structure, for example through the Scottish Government's anticipated participation in the targeted coaching on rural development financial instruments through the European Investment Bank, it needs to be proven functional at both management and results levels.

PERFORMANCE IN DETAIL - SUSTAINABLE

Outcome indicator	Target 2023	Committed	delivered	Movement in period
Area of Woodland creation (ha) (EAFRD)	34,400	2,429	2,429	2,429
Area of farmland supported by agri-env (ha) (EARFD)[1]	1,263,000	1,952,715	1,952,715	1,952,715
Cycle networks or walking paths constructed (ERDF)	100	395	-	-
Low carbon travel and transport hubs supported (ERDF)	20	4	-	-
Low carbon projects receiving non- financial support (ERDF)	745	191	-	-
Low carbon change leader/demonstration projects delivered	25	10	-	-
Greenspace created or enhanced in urban areas (Ha.) (ERDF)	143	2	-	-

[1] This area is all on-going commitments from the 2007-2013 programme. There will be double counting of area. The double counting cannot be removed from this data but it should be possible for the 2014-2020 programme

Relevant changes in the Scottish economy and environment

- Renewable electricity production increased by 7.9% last year to the equivalent of almost 58% of electricity consumption produced by renewable sources
- At December 2015 Scotland had 7.7 GW of installed renewable electricity generation capacity, with an additional 8.9 GW of capacity either under construction or consented. Taking into account pipeline projects, the total renewable capacity either in operation or in planning totals 21.1 GW — nearly 3 times the level currently deployed.
- The Office For National Statistics estimates that 21,000 people were employed in Low Carbon and Renewable Energy sector in Scotland – 9.1% of the UK total.
- In 2013, Scottish emissions of the basket of seven greenhouse gases are estimated to be 3.6% lower than the 2012 figure, with a 34.3% reduction since 1990.
- Scotland’s environment is considered to be in a good condition but there remain areas where environmental quality is poor, with challenges around air quality, diffuse pollution and water quality

Overview of Performance

31. Through EAFRD Schemes and ERDF and ESF Operations, the total amount now approved for Sustainable growth stands at €178 million (20%), including significant legacy spend on agri-environment, forestry and other schemes from former EAFRD programmes. Although this is less than anticipated, there are significant low carbon ERDF applications on the cusp of approval, worth a further €30 million.

32. A significant portion of Sustainable Growth investment is represented by better land management practices through EAFRD, with a high number of contracts continuing across programme periods, as well as 571 new Agri-environment contracts approved; and 433 forestry contracts to create 2,170 hectares of new woodland. In addition, the first year of LFASS payments have been completed, accounting for a significant portion of spend.

33. One scheme with the potential to provide excellent environmental results is the Environmental Cooperative Action Fund, where 41 applications have been made so far (15 in H&I). This fund supports landscape scale environmental intervention, for example where the actions of one land manager acting alone will not have a significant impact. Approvals are expected for June 2016, and it is hoped that even early projects can provide good practice and examples for future projects

34. As with Smart Growth, a number of areas of ERDF activity have not yet commenced, and will therefore not show up in performance monitoring. This includes Smart Ticketing under low carbon transport, where activity is expected to start summer 2016; and some aspects of the Low Carbon Infrastructure Transition Fund.

35. Low Carbon is a significant area of investment in Scotland. The low Carbon transport operations (including low carbon hubs) have been approved at £8.35 m, (€10.8 m) supporting 4 (of a projected 20) hubs and almost 400 km of cycle network and paths (against a targeted 100 km). The balance of outcomes is interesting here, and should be kept under review – obviously it is positive if more results can be delivered, but as the hubs are meant to act as regional catalysts for travel behaviour and drive uptake of ultra-low emissions vehicles, these are as important as active travel provision.

36. The Low Carbon Infrastructure Transition Programme (LCITP) will support promising but relatively high-risk projects until they are ready for commercial investment. The package aims to normalise and de-risk low carbon as an investment in Scotland; and lever in an additional £59 million of private and institutional investment per year. The catalyst and development support has been approved, and the operation for the demonstrator fund is expected shortly, which will take total investment up to £31 million ERDF (€40 million), and will attract match of a further £44 million. This intervention is on track for all indicators, with the number of projects supported and the amount of anticipated programme spend both sitting around 50% for half of the programme.

37. Activity in the LCITF commenced prior to approvals, at Lead Partner risk, and so it is possible to comment on physical performance so far. To date LCITP has funded 24 projects across the public, private and community sectors, and under four headings:

- The **Geothermal fund** awarded £234,000 to five projects to develop feasibility studies exploring the potential for use of ground-source thermal energy to meet local heat energy demands.
- The **Water Source Heat Pump fund** was launched to target projects that seek to extract heat stored in water sources (including rivers, canals and lochs) to supply low carbon heat efficiently.
- The **Scotland Energy Efficiency Programme (SEEP)** was launched in January 2016 to help local authorities to pilot new and innovative approaches to energy efficiency, with prospective applications now under consideration.
- The **Standalone Low Carbon Energy Demonstrator fund**. This is an open call for proposals of demonstration projects that provide flexible and low carbon energy solutions, including generation and storage projects, for use within rural, urban, commercial or industrial settings. Applications are due by June 2016.

38. The types of projects seen and supported so far suggest that this may be a useful area to introduce repayable finance as a programming option. Projects are often too risky for financial instruments, but as Low Carbon is not an area which has regulations providing for revenue generating projects, repayable assistance may be a positive manner in which to recycle funding. A separate paper is presented to the JPMC for decision to permit this approach, and if approved, the Managing Authority will review with the Lead Partner and

the Commission with a view to including this option in the operation as it comes forward for formal approval with a change to the Operational Programme to follow.

39. Two operations for Resource Efficiency and Circular Economy have been approved to a value of £30.7m ERDF (€39 m), with match taking the total half-programme investment to £73m. This is a new area of activity for ERDF, specifically targeting industrial and business resource efficiency; and aiming to build up the re-use of waste as a resource in production, and it may therefore take some time to show results.

40. Both low carbon and resource efficiency packages to some extent rely on co-investment with the private sector and this is likely to be significantly impacted by tougher global financial conditions. In particular, the sustained fall in oil prices has had a material impact on the broader energy sector and beyond. The impact on the profitability of the sector has led to substantial reduction in investment intentions, and a requirement to reduce operating expenditure within the Oil & Gas sector. This in turn impacts on the amounts available for investment in future technologies like low carbon or energy efficient production, and investment in growing or acquiring SME's in these sectors; as well as having a knock on impact on the ESF programme through increased unemployment.

41. The final area of activity for Sustainable Growth is Green Infrastructure, with £8.25 million approved towards improving urban green spaces and linkages between them, particularly targeting deprived communities. The operation is currently seeking interest form projects and assessing proposals. The projected outcomes are currently very low, with just 2 out of 143 hectares of ground approved, but the exercise to invite projects is likely to significantly increase this, particularly since the Lead Partner are indicating that interest seems to be from larger projects covering large areas with genuine strategies, rather than smaller individual improvement projects.

Discussion and Conclusions

42. The low carbon and circular economy remain two of the most innovative uses of ERDF in the Scottish programmes and are so far proving themselves, with quality projects coming forward for support. The use of repayable finance (see separate paper) will give the Lead Partner additional flexibility and may be able to deliver further results, particularly helpful when other obvious sources of investment from the energy sector may not be as readily available as in the past.

43. The shift within green infrastructure to larger landscape type projects could also be very positive, as individual area plans will be joined up and likely to deliver wider benefits. This would mirror the effects of the Environmental Cooperative Action Fund under EAFRD, and provide an urban/rural parallel in the programmes.

44. The most significant area of change here is likely to be the transition from less favoured areas to areas of natural constraint, particularly if this moves into Pillar 1 over the long term. Even in the short term, this should target better environmental and social results (it is an income support scheme) by keeping marginal land under active management , and a separate paper is presented on emerging options for discussion.

PERFORMANCE IN DETAIL – INCLUSIVE

Outcome indicator	Target 2023	Committed	delivered	Movement in period
(Composite) Participants with multiple barriers entering training, education or employment	57,888	51,949 (90%)	-	-
(Composite) All types of YEI participant completing intervention	14,091	10,293 (73%)	-	-
Deprived or fragile communities supported	287	176	-	-
Disadvantaged participants in workless, lone parent or low income households with improved money management skills	13,014	6,664	-	-
FTEs created in supported enterprises/organisations (social enterprise)	100	150	-	-
Number of LEADER operations supported[1]	1,045	0	198	198

[1] No new LEADER projects have been approved. 198 projects approved under the 2007-2013 programme are still being supported under the 2014-2020 programme

Relevant changes in the Scottish economy and environment

- Unemployment rate and level increased over both the quarter and the year, to 6.2%
- Employment rates for females in Scotland remains lower than for males (71% to 77%), although it remains higher than the UK.
- The Youth employment level increased by 15,000 over the year (2015) to reach its highest Nov-Jan level since 2009. The youth unemployment rate now stands at 14.3%. The rate in SW Scotland is now 15.5%, substantially below the 2012 trigger period for the YEI.
- Significant economic shocks to steel sector (South West), oil and gas sector (North East) and Longannet (energy) and Carron Phoenix (manufacturing) closures (Central Belt)
- Welfare changes at UK level including increased conditionality and lower levels of support for some disabilities

Overview of Performance

45. There are three distinct aspects to Scotland's approach to Inclusive growth: Employability, targeting particular individuals who are not adequately covered by mainstream domestic provision; youth employment in South West Scotland, partly dealing with the aftermath of the 2008 financial crisis and partly dealing with a much longer and more problematic legacy of industrial decline; and community inclusion, empowering whole communities to plan for their own improvement, whether in a coastal or rural context (LEADER) or in largely urban settings with entrenched and multiple factors of poverty.

46. The ESI Funds between them have already committed €182 million towards Inclusive Growth, or 53.9% of the total programme expectations. This is driven almost entirely by the European Social Fund, where a number of well-established activities around employability have been expanded and have provided significant early activity; and where YEI commitment is front loaded and will therefore show up in early figures.

47. The European Social Fund has now committed £55million (€71m) towards employability, covering both the continuation and expansion of the pipeline approach from the 2007-13 programmes (£43million), and a specific fund for third sector providers operating in multiple territories where their approach adds something to that already delivered at local level, e.g. targeting small groups at national scale (ex-offenders) or targeting more intensive provision (residential settings) (£12million). This local/national approach has already committed to 60% of the target for unemployed participants and 50% of employed participants with barriers to progression.

48. In terms of the projected short term outcomes, the commitment level stands at 90% of the expected number of individuals entering employment, education or training upon leaving. For previously unemployed participants, the rate of those with a successful outcome after 6 months is 42%, approximately matching the level of funding committed; whilst for already-employed participants, that projection is at 170%, suggesting that local authorities in particular anticipate a higher success rate than planned. This would be positive, particularly if the rate of long-term achievement can be kept up for unemployed individuals.

49. 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 supports individuals, those with multiple barriers to work, ingrained and long-term disadvantage at both individual and community level poverty. 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 after two years; a drop in direct funding for many disabled individuals; and a real-term drop in the value of transfer incomes for the unemployed.

50. This client group is highly likely to require ongoing support regardless of a more positive labour market, but may pose a challenge in ensuring that the outcomes delivered by supported operations are sustainable. Any impacts from welfare changes are unlikely to become clear before mid-programme, but will be monitored closely both for Structural Funds and domestic policy.

51. There have also been significant local shocks to particular sectors, notably oil and gas and steel, which means that some areas will have different employability challenges than initially anticipated. Much of these workforces are skilled and highly motivated, and so require a different form of intervention, or may not be eligible under the tighter ‘multiple barrier’ restrictions being targeted under the 2014-20 ESF programme.

52. Youth employment continue to be an issue in Scotland, with recent increases in the levels of unemployment. This might be partly explained by a drop in inactivity rates, as individuals move out of education and training, but not immediately into employment.

53. The YEI specific allocation for South West Scotland is frontloaded over the first two years of the programming period, 2014 and 2015. Operations under YEI have been awarded just over £59 million(€76 m) to deliver additional educational places, additional employment support and recruitment incentives and support for self-employment., with a further £30 million match from partners.

54. This represents an absorption rate of approximately 92%. The targeting for the programme appears to have been somewhat conservative, with over 19,000 participants projected (against 17,000 planned), with higher counts in all target groups and across both eligible age ranges. The results projected are also almost universally at, or higher than target, suggesting lower attrition rates throughout every intervention.

55. Figures for the number of long-term unemployed are particularly interesting, with almost four times as many participants; and 7.5 times the projected success rate at getting these harder-to-reach individuals into employment and 4.5 times as likely to enter education. 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, and it is therefore not clear whether these projected outturns are realistic or achievable.

56. Finally, on community level support and empowerment, £20.7million (€26.7m) has been approved from the European Social Fund for targeting the most deprived communities with financial and debt management support for social enterprises to create and maintain local employment which reinvests in the community, social inclusion provision aligned with employability services, and a community-led approach to developing services.

57. These are all new areas to the Funds in Scotland, and target setting was therefore relatively conservative. Two of the projected outcomes and results are worth highlighting. First, on financial inclusion, a simple change in approach from one-to-one to group-based support including peer support looks set to reach 62.5% of the programme target by mid-term (with further operations still to be approved, so the numbers might be even higher); and the number of jobs created in social enterprises at 150 versus a target of 100, again by mid-term in the programme. Both of these would reflect a significant degree of success in using ESF to support innovative rather than existing approaches.

58. Finally, all Local Actions Groups are now open for applications for LEADER funding, and it is anticipated that first projects will go to LAGs during April. A number of projects from the 2007-13 programme also continue to be supported.

Discussion and Conclusions

59. The Scottish Government and Scottish public services have extensive experience with delivering employability interventions, and in setting costs and targets for these. It is therefore noticeable that, across the piece, the operations approved seem to be coming in cheaper to deliver per participant; <u>and</u> achieve better results than those predicted using the baseline methodology. On YEI in particular, the significant projected over-achievement on every indicator should give cause for caution, as either the programme target setting methodology is simply inaccurate; or the results projected now may be unachievable in reality. This will be an area for future detailed monitoring, in particular to ensure that employability support has long-term impacts; and that the results, e.g. job or qualification, from the YEI are of high quality for the young person.