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 future planning

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 gives detailed analysis and commentary against Smart, Sustainable and Inclusive indicators, and sets out the prospects for each area delivering against the Partnership Agreement
   - Section 3 provides an update to the information provided at the previous meeting. When the report was compiled, the total expenditure to date was reported against the programme grant value, giving an incomplete picture of the current position.

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 programmes; this is expected to increase in the next six months through the start of the second phase of the ESF and ERDF awards. 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 over the coming months and described in the Smart, Sustainable and Inclusive chapters in more detail.

6. Within the ERDF and ESF programmes, the changes discussed at the previous meeting (June 2017) were taken forward with the Commission and have resulted in revised Operational Programmes being submitted, in line with the paper agreed by Written Procedure in September and approval is expected before the end of the year. The Commission's decision will be required before any new operations at higher intervention rates or in the new investment priorities can be approved. The revised OPs will inform the application process for new operations, with the intention that through adjusting the scope

and decreasing the match funding contribution, lead partners will be more able to bring forward operations to maximise the financial commitment and ensure the programmes are scheduled to meet the targets in the OP and PA.

7. Since the previous meeting, the ERDF and ESF programmes have continued to receive and process claims with the total grant to date reported in section 1A. It is noted that expenditure is behind the anticipated schedule and, in addition to the changes to the programme and operations anticipated in the second phase, the MA have taken steps, including updates to the EUMIS IT system, events with lead partners and letters to chief officers, which are aimed at facilitating the submission of claims at a faster rate.

8. A full update from the Youth Employment Initiative Territorial Committee on the activity within the ESF programme is provided separately, but three changes from the previous meeting should be noted: as youth unemployment has fallen, projects have delivered and lead partners have considered the anticipated expenditure, lead partners have started to identify underspends against the original approved operations, as a result the approved grant has fallen from £59 million in the paper to the Committee in November 2016 to around £53 million, with the potential for this to fall and no opportunity to approve new operations; the changes in exchange rate, both over the last year and since the YEI operations were approved, have meant that the value of the programme and the resultant N+3 targets has risen in Sterling terms, but it was not possible to increase the commitments; the Commission have confirmed that the N+3 targets are calculated on a fund and programme area basis, with YEI being treated apart from the remainder of the programme. These factors have combined to mean that it is almost certain that the 2017 N+3 target will not be met for YEI and there will be a loss to the programmes. Despite this, the committed performance figures still anticipate the full cohort of participants being supported and achieving over 90% of the result indicator in the PA targets table.

9. EAFRD programme continues to perform reasonably well in terms of funds committed, notable elements are new entrants and young farmer schemes where business start-up grants have seen high applications numbers and also support to less favoured areas through the LFASS schemes continue to consistently spend on budget to a large number of recipients. Environment focused schemes have seen some challenges, with the withdrawal of the Environmental Cooperation Action Fund due to audit concerns.

Summary by Growth Area

10. Smart Growth is progressing steadily with a reasonable overall commitment level. Some areas are still under-committed, the most notable being ERDF Priority 1 (Innovation) which is still showing lower levels of commitment. However, work on the Early Review has identified areas of demand supporting innovation activity within the Manufacturing Action Plan and through City Deals as well as potential infrastructure in the transition region which could take up significant levels of this funding in the second phase of the Programme. ERDF Priority 2 is now almost fully committed with the significant approval for the ERDF Improving ICT SI and Operations, the Mobile Infill activity is progressing well and to expected timescales, however targeting of investment across other infrastructure investment has slowed progress at present. Commitment levels are reasonable at this stage for ERDF Priority 3. There has been an additional allocation to the SME Holding Fund (LUPS) to meet unexpected levels of demand for equity funding for SMEs provided through Scottish Enterprise. Claims submissions are beginning to increase steadily although delays have been experienced with both lead partners and the MA as the increased levels of checking dictated by the new Management and Control System settle in and become part of normal processes. Commitment in ESF Priority 3 is lower than expected at this stage of the Programme. However, work on the review identified that spend is being incurred at a quicker rate than originally forecast and that there are significant levels of demand for funding in the second phase of the Programme. Work is currently underway to make early extension

approvals to SFC and SDS to enable them to undertake the longer-term commitments to secure activity and funding for a second phase of Developing Scotland's Workforce. Initial claims have been submitted but early indications show that there is still work to be done to ensure that the higher level skills targets contained within the Operational Programme can be met. The MA is engaging with both SFC and SDS to ensure that second phase targets are more ambitious with regard to skills levels. This continues to be balanced by good performance in EAFRD, especially for food and drink commitments and young farmers' grants.

11. Sustainable Growth continues to progress generally on track, with 50% of funding committed and targets proceeding to programme expectations. An increased proportion of demonstrator projects in the Low Carbon Infrastructure Transition Fund contrasts with extended support under the Circular Economy activity, where additional small scale funding is now available to support progression of more projects to access the main fund. This demonstrates effective management of the funds to reflect emerging priorities, respond to the wide range of influencing factors, ensure maximum impact and maintain appropriate accessibility and targeting. A large element of the Sustainable Growth strand is delivered through Challenge Funds, most of which are now entering their second round. Interest and uptake is generally encouraging, although match funding issues have hindered proposals coming forward in the H&I region. There continues to be a good pace of activity across forestry and agri-environment (EAFRD), building on effort and commitment to date and maintaining momentum and scale across Scotland. As the demands and expectations of Programmes continue to evolve, particularly around fast moving technological aspects, early discussions are underway on how future support can be shaped and targeted to build on the success and progress to date.

12. Activity within Inclusive Growth remains encouraging with claims submission increasing across all Priorities. As with other themes, some delays have been experienced by both lead partners and the MA as a result of new verification procedures and an increased level of checks on participant files – this should decrease as all settle into the new compliance format. In addition, discussions will be held with lead partners to establish the level of funding required for second phase extensions. The provision of match funding has remained a problem for some local authorities (particularly those proposing Challenge Fund delivery models) and as a result a small number have not pursued operations under either employability or social inclusion, with the proposed changes to the Operational Programmes being utilised to increase intervention rates in the second phase of the programme. The Early Review recommended redistribution of the unallocated funding to those areas where demand remains, and also identified strong demand for mental health-focused support and the MA is considering how best Structural Funds might be utilised. There has been little change to commitment levels since the summer however Scottish Government's Aspiring Communities Fund and Social Economy Development Programme operations have issued grant awards totalling more than £18 million through the first phases of the Aspiring Communities Fund and Social Innovation Fund and first two phases of the Social Economy Growth Fund.

Recommendations

13. 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

JPMC Secretariat
October 2017

SECTION 1: PERFORMANCE AGAINST THE PARTNERSHIP AGREEMENT
1a. Dashboard[1]

Financial performance by fund

Fund	Programme value	Committed/ approved	% of target committed	Spent/claimed
EAFRD (Including VM)	844,685,131.00	410,790,366.64	48.82%	182,366,267.00
EMFF	-	-	-	-
ERDF	478,914,103.00	244,827,924.82	51.12%	15,252,763.23
ESF	465,952,940.00	206,383,503.94	44.29%	3,793,867.18
Total	**1,789,552,174.00**	**862,001,795.40**	**48.17%**	**201,412,897.41**

H&I Only

Fund	Programme value	Committed/ approved	% of target committed	Spent/claimed
EAFRD (Including VM)				-
EMFF	-	-	-	-
ERDF	114,082,855.00	63,920,281.06	56.03%	1,432,964.34
ESF	82,875,935.00	29,669,655.61	35.80%	598,176.12
Total	**196,958,790.00**	**93,589,936.67**	**47.52%**	**2,031,140.46**

Financial performance by growth heading (ESF and ERDF programmes)

Growth heading	Programmed value	Committed/approved	% of programmed value	Spent/claimed
Smart	406,119,639.00	168,618,258.66	41.52%	15,087,006.13
Sustainable	187,052,563.00	98,549,219.95	52.69%	2,489,795.36
Inclusive	333,799,400.00	166,590,593.93	49.91%	1,469,828.92
T.A.	17,895,441.00	17,453,356.22	97.53%	-
Total	**944,867,043.00**	**451,211,428.76**	**44.83%**	**19,046,630.41**

H&I Only

Growth heading	Programmed value	Committed/approved	% of programmed spend	Spent/claimed
Smart	109,832,480.00	53,175,236.81	48.41%	1,374,896.51
Sustainable	32,670,000.00	17,798,875.59	54.48%	466,509.19
Inclusive	49,982,450.00	18,255,911.51	36.52%	189,734.76
T.A.	4,473,860.00	4,359,912.76	97.45%	-
Total	**196,958,790.00**	**93,589,936.67**	**44.83%**	**2,031,140.46**

[1] At 10 November 2017

Physical performance

EU 2020 Target*	Baseline	Current
3% of GDP on R&D&I[2]	1.39%	**1.46%**
Greenhouse gas emissions -20% [3]	-19.7%	**-37.6%**
20% of energy from renewable sources[4]	7.2%	**15.2%**
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 2015 figures
[3] Source: Scottish Greenhouse Gas Emission 2015, 2010 on 1990 and 2015 on 1990 figures
[4] Source: Energy in Scotland 2017, Share of renewable energy in gross final energy consumption, 2010 and 2014 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, 2010/2011 and 2015/2016 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%	-	611,664.87 8.78%
	% Forest or other wooded area under management contracts supporting biodiversity	-	37.99	-	42,523.31 3.02%
	% Agricultural land under management contracts supporting biodiversity and/or landscapes	-	22.7%	-	701,938.58 12.63%
	Total number of participants trained	-	10,617		12,118 114.14%
	% of agriculture holdings with RDP support for investments in restructuring	-	16.354%	-	1,614 3.09%
	Rural population benefiting from improved services / infrastructures	-	245,376	-	-
ERDF	Number of innovative active enterprises	11,000	12,600 (+1,600)	12,755	-
	Additional leverage of BERD	37,000,000	363,000,000	84,128,000	-
	No of high speed broadband residential and business subscriptions in the Highlands and Islands	24,499	89,087 (+64,588)	89,087	-
	Number of SMEs exporting	44,064	94,906 (+50,842)	46,107	150
	Employment in Smart Specialisation Sectors	317,250	368,067 (+50,817)	322,442	112
	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	166,000,000	-
	Low carbon investment levered into Scotland by private and institutional investors (EUR)	£28,500,000	£413,000,000	304,170,000	-
	Employment in low carbon sector in Scotland	78,000	81,900 (+5%)	80,683	-
	Positive rating of satisfaction with the quality of green infrastructure in urban areas in Scotland	74%	80%	75%	-
	Savings from resource efficiency investments in supported sectors	£6,000,000	£232,152,000	28,960,500	-
	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	18,521	232
	(Composite) YEI Participants with sustainable outcome 6 months after leaving (all age groups)	5,997	13,315	12,498	48
	Participants no longer affected by debt as a barrier to social inclusion	700	4460	5,265	73
	FTEs created in supported community/third sector/social enterprise organisations	11	100	45	-
	total participants gaining ISCED level 3-5 qualification	5,361	34,368	5,493	1,146

1b. Overall Economic and Political Context for programmes

Changes in the economy and labour market

14. The latest Scottish Government State of the Economy update was published in June 2017[10]. GDP data for Scotland confirmed growth overall in Scotland during 2016 of 0.4 per cent, which was below trend and expectation. The report identifies in particular a fall in output in the Oil and Gas sector, reflecting wider, international factors.

15. Looking forward, the report notes that the outlook remains positive but at below trend growth. It notes that growth in exports sales are materialising given the sustained depreciation of Sterling over the last year and rising import prices feed through to higher inflation, impacting real income growth and household consumption, and the significant risk posed by Brexit, particularly beyond 2018. Growth is forecast at around 1% in both 2017 and 2018.

16. In contrast to weaker economic growth, the labour market has been more resilient with employment continuing to rise and unemployment falling to near record low rates, albeit with a slight rise in inactivity levels. The report notes the ability (and demand) within the wider economy to absorb skilled labour

17. Alongside this, labour productivity fell during 2016, but is noted as being relatively volatile and over the longer-term, Scottish productivity has grown by 7.6% since 2007 and the historical gap between Scotland and the UK has closed.

18. In the most recent quarter, economic performance has been broadly in line with expectations[11]:

- Scotland's Gross Domestic Product (GDP) grew by 0.1% in real terms during the second quarter of 2017, following growth of 0.6% in the first quarter of 2017. The equivalent growth rate for the UK as whole during the second quarter was 0.3%.
- In the second quarter of 2017, output in the Services sector grew by 0.7%, output in the Production sector fell by 0.7%, and output in the Construction sector fell by 3.5%.
- Compared to the same period last year (i.e. 2017 Quarter 2 vs 2016 Quarter 2), the Scottish economy has grown by 0.5%. Equivalent UK growth is 1.5%.

19. Scottish GDP per person grew by 0.1% during the second quarter of 2017, in line with the UK as a whole.

20. The unemployment rate for 16-24 year olds in Apr 2016-Mar 2017 in South West Scotland was 9.9%, less than half of the 20.0% in the year ending March 2014. This was in line with the Scottish national average (also 9.9.%).

Changes in the Environment

21. 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 has been decided to stop updating from 30 September 2017 the associated Scottish Environment Statistics Online database (SESO) from which the statistics below are taken. SESO shows a generally positive trend on environmental factors

[10] https://beta.gov.scot/publications/state-of-the-economy-june-2017/
[11] http://www.gov.scot/Topics/Statistics/Browse/Economy/PubGDP/GDP2017Q2/

ranging from emissions and recycling to water quality, habitats and biodiversity:

Greenhouse Gas Emissions

22. 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%), PM_{10} (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

23. Household recycling rates continue to increase (45.2%, up from 44.2% in 2015). Total Scottish waste landfilled increased by 2.6% from 4.03 million tonnes in 2014 to 4.13 million tonnes in 2015, an overall decrease of 41% from 7.01 million tonnes in 2005. Between 2005 and 2015 biodegradable municipal waste landfilled decreased by 50% (from 2.16 to 1.13 million tonnes).

Drinking water quality

24. 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 2015, the most recent data available.

25. In 2015 the parameter with the largest percentage of samples failing to comply was Lead at 1.0% compared with 0.8% in 2014 and 1.6% in 1991. The vast majority of these failures are related to homes which have lead piping. The incidence of coliform bacteria is now the lowest ever recorded with 0.25% of water samples failing to comply in 2015 compared to 0.45% in 2014 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

26. 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

27. Woodland area has increased by 2.0 percentage points from 16.4% of Scotland's land in 1995 to 18.4% in 2016. Figures for woodland area in 2010 to 2016 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

28. 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%.

29. 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.

30. 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.

31. 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.

32. The number of Scheduled Monuments has increased by 74% from 4,698 in 1991 to 8,167 in 2016. The area they account for has increased by 129% over the same period from 7,992 ha to 18,285 ha. Since 2015 there have been 7 historic Marine Protected Areas, covering 87 ha, that have been designated to protect marine historic assets such as historic shipwrecks.

Biodiversity

33. The index of abundance of terrestrial breeding birds, which is a proxy for wider biodiversity, has increased from its base value of 100 in 1994 to 119.1 in 2014 and 121.3 in 2015. following a general decline from the peak of 129.8 in 2008. However, 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 is available under the agri-environment schemes in EAFRD to mitigate these impacts.

Change in the Institutional Landscape

34. In economic trends and events, the most significant on-going changes in Scotland and the UK are the negotiations over the UK's exit from the European Union and the impact

of the EU (Withdrawal) Bill, The Scottish and Welsh Governments have proposed amendments to the bill to ensure that certain powers which are returned to the UK from the EU are passed on to the devolved administrations. The bill is currently at the Committee Stage in the Commons.

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

35. Progress towards the Partnership Agreement result indicators is noted in section 1a, with the majority of the indicators showing reasonable levels of commitment, in line with the expenditure committed in the programmes. Actual progress reported is lower, however this is to be expected given the nature of the targets. In particular, the ERDF targets are likely to be achieved and reported after the delivery of the operations and when the impact of the activity can be reported, and the ESF programme results include two which reflect on participants' status six months after completing the project.

36. Within the ERDF and ESF programmes, the progress towards the PA and OP level targets will be reviewed as part of the development of the second phase and consideration will be given to the progress to date when prospective operations are assessed.

37. In the table shown in section 1a, there are two targets with no commitment of progress to date: *Rural population benefiting from improved services/infrastructures* is based on the 2016 AIR and reflects that no expenditure had been incurred under this scheme; *Employment in circular economy* is under review by the ERDF MA to ensure that operations are monitoring and reporting this target appropriately.

38. Alongside considering the development of the second phase of the programme, the ERDF and ESF MA is considering whether a review of the Monitoring and Evaluation strategy approved at the start of the programme period remains appropriate and will update the Committee in due course where activity is commissioned.

39. As shown in section 1b, there have been significant economic shifts since the development of the programme, which have changed the demands on the programmes, particularly ESF. While economic growth has slowed, the labour market has remained robust, meaning that ESF operations are targeting a small group of potential participants, often with higher levels of needs. This has been particularly pronounced in youth unemployment, both in Scotland as a whole and the South West Scotland are targeted by the YEI operations, as noted in the update from the YEI Territorial Committee.

40. Alongside this, the latest State of the Economy report highlights two other factors that impact on the programme: a requirement for more highly skilled employees, which is reflected in the increased demand in ESF Priority 3, and a dip in productivity, which the changes to the OP agreed by written procedure in September will aim to address through the changes to ERDF Priority 1.

41. Across the ESF and ERDF programmes, the slow rate of claims and the impact of the requirements of the Management and Control System have presented challenges in delivery to date; it is anticipated that through familiarity with the processes and adaptations to working practices, these can be overcome over the next year.

42. Within Smart and Sustainable growth, the most notable concerns regarding achievement of the programme targets are the low levels of commitment under the Innovation priority, the introduction of new activity to the programme and the achievement and monitoring of programme results.

43. Under Inclusive Growth, there are concerns regarding the under commitment in the Highlands and Islands region, and the consequent impact of the potential achievements, and in the delivery of the YEI operations in South West Scotland.

44. The 3rd modification to the EAFRD programme was required to accommodate changes to the indicative budgets for schemes and changes to the co-financing rate. These have resulted in changes to the EAFRD targets, which in turn have also impacted on the Partnership Agreement targets. Additionally, the impact on the Partnership Agreement resulting from the proposed removal of ECAF from the programme will be assessed in due course.

SECTION 2: PERFORMANCE IN DETAIL

2a. 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	-	0	46%	53
Number of participants in training (EAFRD)	10,617	-	0	114%	12,118
Number of enterprises cooperating with research institutions (ERDF)	1,200	**48**	18	4.00%	**0**
Number of enterprises supported to introduce new to the firm products (ERDF)	1,050	**633**	133	60.29%	**0**
Innovative Services in Cities Developed (ERDF)	20	54	26	270.00%	0
Additional households and businesses with broadband access of at least 30Mbps (ERDF)	13,363	**11,833**	11833	88.55%	**0**
Number of enterprises receiving financial support other than grants (ERDF)	515	**1499**[12]	-1,304	291.07%	**229**
Number of new enterprises supported (ERDF)	950	**1622**	677	170.74%	**104**
Employment increase in supported enterprises (ERDF)	9,400	**10979**	378	116.80%	**312**
Total participants with ISCED level 5 and above qualification upon leaving (ESF)	13,433	**2616**	-5,087[13]	19.47%	**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

45. Under the innovation strand, the levels of commitment remain lower than in other areas of the programme – around 34% in both programme areas – which reflects submissions which have come forward from the lead partners. Despite the lower level of commitments, the anticipated targets for the approved operations are broadly in line with, or ahead of, the programme targets expected at this stage. Alongside the existing activity, the changes to the OP are aimed at activity where there is known demand from prospective operations, which will enable increased levels of commitment when the changes are approved and the second phase of operations are considered.

46. Further activity has continued to be approved under the Smart Cities strand of Priority 1 and this has taken the total approved grant to in excess of 90% of the Strategic Intervention approval. Due to the nature of the Smart Cities activity, the outputs related to Smart Cities are likely to be delivered later in the programme period, but indications are that the majority of the

[12] This represents a review of the categorisation of delivery by lead partners to ensure outcomes are reported accurately. The programme remains on course to meet the overall target.
[13] This represents a correction of the previous paper where definitive information was not available. The MA is working with the lead partners to ensure this is met through the second phase.

targets will be wholly met by the first phase. Under Priority 2, the Digital SI and Operation have been approved, with close to the full allocation committed and the full targets expected to be achieved. Targeting of investment has slowed progress at this stage, so activity has not started as originally anticipated, MA are continuing to monitor progress of the operation.

47. In SME Competitiveness, activity has continued in all three strands: Business Gateway, enterprise agencies and the SME Holding Fund. In particular, the Holding Fund had committed 82.2% of the original allocation in SMEs and have supported 141 enterprises; as a result, an additional £10 million ERDF contribution has been approved, which will be matched by £15 million match funding from Scottish Enterprise and is anticipated to lever in a further £78 million in private investment.

48. The Developing Scotland's Workforce strand, delivered by Skills Development Scotland and SFC, is continuing to deliver broadly in line with the approved operations. Original operations and targets, particularly in terms of targeting higher level skills, were lower than initially anticipated, however spend to date has been promising and both lead partners have indicated that they are in a position to deliver an increased level of activity. In line with the agreement by the JPMC to extend Strategic Interventions with an earlier end date and where the priority is under-committed, each lead partner has submitted an extension proposal. These indicate that the lead partners intend to utilise the full allocation within the priority. The MA initially requested that each lead partner revise the request to focus more on higher level skills; the SDS request has now been approved and further information is expected from SFC.

49. With respect to 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 31 August 2017, has committed over £30m toward a variety of food projects and it is expected will created over 800 FTE jobs. The New Entrants schemes, assisting existing businesses with support for infrastructure whilst 148 young farmers have been successful in attaining a business start-up grant. The Knowledge Transfer Innovation Fund (KTIF) has committed £4.79m across 17 applications.

<u>Prospects of meeting Partnership Agreement Objectives</u>

50. The overall levels of commitment and anticipated targets for Smart Growth are close to those anticipated for the first phase of the programmes, with positive early indications from claims submitted to date and the information provided through the early review, and reported to the previous meeting of the Committee. However, there are also a number of potentially concerning issues, including commitments under Priority 1 and the results for BERD Expenditure, Number of SMEs exporting and Employment in Smart Specialisation Sectors reported in approved applications.

51. Regarding spend, it is hoped that the changes to the operational programme will stimulate demand due to increases in the intervention rates, especially in the Transition area, and the introduction of a new priority.

52. In terms of results, two potential areas have been identified: the delivery to date and future requirements will be considered when planning for and assessing the second phase of the programme, and recording methodologies used by operations and the programme to be considered to confirm if more accurate figures are available.

53. As noted, the programme targets require a higher level of skills (ISCED Level 5 and above) to be gained by participants supported by the Developing Scotland's Workforce

operations. To date, the committed operations are not anticipated to meet these targets and discussions have begun between the MA and the lead partners. It is hoped that these will be significantly higher in phase 2 and will enable the programme to meet these targets, but this cannot be confirmed at this stage.

54. Delivery and reporting under Smart Growth has been impacted by a number of issues which are common across the programme, including delayed submission of claims by lead partners, issues in adapting to the new requirements of the Management and Control System and delays in the early stage of the programme. Alongside this, the difficulties for lead partners to find the required match funding, prior to the changes to the OP, and the impact of the UK's decision to leave the European Union and its knock-on effects have created issues which lead partners and the MA are working to resolve.

2b. Sustainable Growth

Progress and performance

Outcome indicator	Target 2023	Committed	Movement in period	% committed	delivered
Area of Woodland creation (ha) (EAFRD)	34,400		0	10%	3,568
Area of farmland supported by agri-env (ha) (EARFD)[1]	1,263,000		0		1,252,130
Cycle networks or walking paths constructed (ERDF)	100	53	3	53.00%	0
Low carbon travel and transport hubs supported (ERDF)	20	6	2	30.00%	0
Low carbon projects receiving non- financial support (ERDF)	745	411	-220[14]	55.17%	10
Low carbon change leader/demonstration projects delivered	25	47	1	188.00%	2
Greenspace created or enhanced in urban areas (Ha.) (ERDF)	143	70	0	48.95%	0

[1] this measure will include double counting if a land manager is pursuing more than one option for land improvement, including under legacy measures.

Drivers of progress

55. Since the previous Committee meeting, a series of funding awards have been made under the Sustainable theme, with the Low Carbon Infrastructure Transition Programme transformational demonstrator call, the Circular Economy Investment Fund, the Low Carbon Travel and Transport Challenge Fund and the Green Infrastructure Fund all making significant funding awards. These are not expected to lead to financial claims at this point, but confirm that there are a number viable projects in place.

56. It has been noted that in some cases, the level of commitment in the Transition region has been lower than intended (e.g. no projects in the region were funded under the Green Infrastructure Fund or Low Carbon Travel and Transport Challenge Fund, to counter this, lead partners have begun to adapt the approaches which they are taking in designing and targeting calls to ensure a broad range of potential recipients are supported, including the LCITP Innovative Local Energy Systems call, which was aimed towards rural, remote and off gas grid parts of Scotland, and a Highlands and Islands specific call for the Low Carbon Travel and Transport Challenge Fund.

57. Alongside the larger grant support awards which have been, the LCITP and Resource Efficient Circular Economy projects have continued to support through LCITP's catalyst and development phases and the Resource Efficiency operations. These operations remain anticipated to meet the programme output targets for projects receiving support, even after a shift in the LCITP activity resulting in a fall in the quantity of the operations supported towards more demonstrator projects

58. With respect to EAFRD and Sustainable Growth; a total of £99m of the Agri Environment Climate change Fund scheme has been committed, helping to maintain and enhance our rich and varied natural environment. Less Favoured Areas support scheme, (LFASS), continues to provide around £65m annually to around 11,300 recipients. This

[14] This represents a change approved in the LCITP Strategic Intervention, which reflects the support required. The programme remains on course to meet the overall target.

provides support for fragile and remote areas of Scotland, helping to sustainably manage these landscapes and maintain remote communities. The recent Ministerial decision to remove Environmental Cooperation Action Fund (ECAF) form the programme may hold some limited impact on sustainable growth, however other EAFRD schemes may be able to provide an alternative option for collaboration and cooperation which could help to mitigate such potential reductions.

Prospects of meeting Partnership Agreement Objectives

59. While the information to date on outputs in committed operations is largely as expected, there are similar questions as under the Smart Growth ERDF activity regarding the reporting of results. Two potential areas have been identified: the delivery to date and future requirements will be considered when planning for and assessing the second phase of the programme, and recording methodologies used by operations and the programme to be considered to confirm if more accurate figures are available.

60. In addition to the continuation and development of existing activity in the second phase, a notable potential challenge will be towards the new outputs and results. Details of the delivery arrangements and potential operations will be confirmed following consideration of the OP changes by the Commission.

61. Delivery and reporting under Sustainable Growth has been impacted by a number of issues which are common across the programme, including delayed submission of claims by lead partners, issues in adapting to the new requirements of the Management and Control System and delays in the early stage of the programme. Alongside this, the difficulties for lead partners to find the required match funding, prior to the changes to the OP, and the impact of the UK's decision to leave the European Union and its knock-on effects have created issues which lead partners and the MA are working to resolve.

2c. Inclusive Growth

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	45,171	-29,997[15]	78.03%	882
(Composite) All types of YEI participant completing intervention	13,771	19,290	-518[16]	140.08%	2,241
Deprived or fragile communities supported	287	212	18	73.87%	0
Disadvantaged participants in workless, lone parent or low income households with improved money management skills	13,014	11,141	-1,680	85.61%	62
FTEs created in supported enterprises/organisations (social enterprise)	100	45	-159[17]	45.00%	0
Number of LEADER operations supported	1,045	0	0	25%	263

Drivers of progress

62. Employability pipelines are currently being delivered in thirty out of the thirty-two local authority areas. The pipelines are generally delivered over five key stages of support (with stages ranging from engagement and action planning, to barrier removal and vocational activity, to and in-work support), however, each pipeline is tailored to the particular needs of each local area and is essentially demand led, with each local authority choosing which stages to deliver. The emphasis is on working with individuals who are the furthest away from the labour market (including unemployed, inactive or employed individuals), with Programme rules specifying that participants must have multiple barriers to entering work or progressing within the labour market. Following clarification with the Commission, it has been agreed that support can be extended to young people still at school who are considered 'pre-NEET' or at risk of becoming NEET upon leaving school – provided these individuals are classified as 'inactive', are of 'minimum school leaving age' and have multiple barriers.

63. Most local authorities favour a combination of different delivery models, choosing to utilise in-house, challenge funds and procured activity. In addition, there is a mixed picture on whether match funding is provided directly by local authorities or whether delivery organisations are required to contribute their own funding. 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 experienced difficulties with procurement, even where the contract is

[15] In the previous report, all participants were shown against this indicator. The programme remains on course to meet the overall target.
[16] This represents changes to previously approved operations. The programme remains on course to meet the overall target.
[17] In the previous report, a number of projects were double counted as a manual system was used. The programme remains on course to meet the overall target.

fully-funded, with little or no interest in the proposed tender. This is particularly the case in remote rural areas, where service delivery is both more difficult and more expensive.

64. The National Third Sector Fund has run several procurement calls and has now allocated funding in both the LUPs and H&I area – this relates to larger third sector organisations delivering employability activity (not currently delivered by the local pipelines) in more than one local area. An initial claim has been submitted by the lead partner, Skills Development Scotland, and the Managing Authority is currently working closely with SDS to verify the claimed costs and achievements.

65. Whilst progress has been slower against those projects focused on promoting social inclusion and combating poverty, all operations are now underway and Lead Partners are working towards the submission and/or verification of first claims. Funding under this intervention is dispersed via local authorities (working within their individual local areas), the Scottish Government (pan-Scotland) and Big Lottery Fund Scotland (pan-Scotland). Both operations led by Scottish Government are seeking early extensions to their timescales to enable full implementation of phase one and a seamless transition into phase two applications, which are expected in early 2018. Match funding to the various schemes/funds being delivered through these operations is being matched at source by the Lead Partner thus removing the headache faced by others.

66. In many cases, delivery commenced at risk in 2015 and at least two full years of activity has been delivered. As previously noted, some delays have been experienced with the submission and processing of claims, however it is clear from discussions with Lead Partners that progress is being made towards agreed outcomes. The MA has asked each Lead Partner to consider whether it has the correct level of staff in place to ensure claims are submitted regularly and the costs and achievements are verified correctly and compliantly – subsequently a number of Lead Partners have requested to increase costs to ensure that their Strategic Interventions are managed effectively from the outset.

67. Progress against the YEI element of the programme is noted in the update on the YEITC to the Committee. The supported operations have continued to deliver, with the end of programme evaluation to be delivered by the end of 2018. Three major issues have emerged: the European Commission have confirmed there is a N+3 target specific to YEI; the lead partners have started to identify underspends and underachievement against the original targets; and the youth unemployment rate has fallen significantly, reducing the demand for support.

68. With respect to EAFRD and inclusive growth; as of 31 August LEADER has committed almost £33m to local and community projects helping to generate growth. The Broadband scheme continues to spend slower than anticipated, however £5.2m of applications are awaiting assessment, which will help provide community with much need internet access which will contribute to inclusive growth across Scotland..

Prospects of meeting Partnership Agreement Objectives

69. In the Lowlands and Uplands Scotland area, projected outputs and results from approved operations indicate that lead partners anticipate achieving 50% or higher of the programme targets through the first phase, with many of the projections exceeding the programme targets. The exception to this is the activity supporting social enterprises; however the committed outcomes here are broadly in line with the proportion of the financial allocation committed. The slow progress of the submission of claims has meant that the achievements to date are limited, although it should be noted that in the survey data

collected at the start of the year, lead partners have indicated that there has been a higher level of delivery which has not yet been reported.

70. In the Highlands and Islands area, the lower levels of financial commitment is reflected in lower levels of anticipated outcomes and, similar to the remainder of the programme, there is limited information reported through claims to assess progress. As it stands, this would create a potential risk towards delivering the programme targets, however through the early review and the proposed changes to the operational programme, steps have been taken which are intended to enable more progress. In particular, the proposed increase in intervention rates is aimed at increasing the financial commitment levels and the changes to the programme targets for the Transition region mean that the targets are more achievable.

71. In terms of YEI programme, the progress towards targets has been affected by the economic climate, in particular the fall in the unemployment rate for 16-24 year olds in Apr 2016-Mar 2017 in South West Scotland to 9.9%, less than half of the 20.0% in the year ending March 2014 has reduced the demand for support. Despite this, the committed performance figures still anticipate the full cohort of participants being supported and achieving over 90% of the result indicator in the PA targets table; this will continue to be monitored as future claims progress.

72. Delivery and reporting under Inclusive Growth has been impacted by a number of issues which are common across the programme, including delayed submission of claims by lead partners, issues in adapting to the new requirements of the Management and Control System and delays in the early stage of the programme. Alongside this, the difficulties for lead partners to find the required match funding, prior to the changes to the OP, and the impact of the UK’s decision to leave the European Union and its knock-on effects have created issues which lead partners and the MA are working to resolve

SECTION 3: RESTATEMENT OF FINANCIAL PERFORMANCE REPORTED IN JUNE 2017

The following tables were reported in Section 1a of the previous report to the JPMC in June 2017.

We have since identified an error in the commitment value reported under the ESF and ERDF programmes, where the expenditure was reported against the approved grant. The corrected values are shown in **bold, highlighted text**, to enable comparisons to be made with other time periods.

Financial performance by fund

Fund	Programme value[18], €	Committed/ approved, €	% of target committed	Spent/claimed, €[19]	Spent/claimed, €
EAFRD (Including VM)	841,458,131	479,750,821	57.01%	-	54,177,637
EMFF	-	-	-	-	-
ERDF	478,914,103	243,045.073	50.75%	31,464,812	12,661,246
ESF	465,952,940	212,895,995	45.69%	3,584	1,792
Total	**1,786,325,174**	**935,691,889**	**52.38%**	**31,468,396**	**12,663,038**

Financial performance by growth heading (whole programme)

Growth heading	Programmed spend, €	Committed/approved, €	% of programmed spend	Spent/claimed, €	Spent/claimed, €
Smart	470,814,808	207,135,475	44.00%	27,360,483	10,945,637
Sustainable	904,105,851	530,266,231	58.65%	4,104,328	1,715,609
Inclusive	386,975,149	195,921,077	50.63%	3,584	1,792
T.A.	24,429,366	2,369,107	9.70%	-	
Total	**1,786,325,174**	**931,691,889**	**52.38%**	**31,468,396**	12,663,038

[18] Includes 2017 H&I uplift.
[19] Includes all claims approved as at 23/5/2017.