

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, and the findings of the Early Review of ERDF and ESF, impact on future planning.

Purpose

2. This paper assesses the progress of the 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. This paper has been abbreviated for the June 2017 meeting of the JPMC. In addition to this regular analysis of performance against the Partnership Agreement, the JPMC will also consider the draft Annual Implementation Reports (AIRs) for the ESF and ERDF, and the recommendations of the Early Review of ESIF. In order to avoid overload and duplication, the three reports have been arranged as follows:
 - This paper will focus on top-level performance to date against the Partnership Agreement,
 - The AIRs present progress in detail for the calendar year to 31 December 2016, and
 - The Early Review presents a detailed update for 2017, drawing on findings from consultation and survey work, and makes recommendations for future funding.
4. This paper draws on programme level monitoring information such as monitoring of commitments and targets. It presents 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.
5. Section 2 of this paper also presents a restatement on the financial performance reported in the November 2016 report, in which an error led to the over-state the commitments for EAFRD and hence Smart Growth. The overall impact on commitment against PA is -1.47% (43.36% down from 44.83%).

Executive Summary

6. 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.
7. Combined commitment levels for all of the programmes have risen since the previous JPMC meeting in November 2016, from 44% across the programmes to 52%. This includes

activity in every area of every programme, as the anticipated ERDF Improving ICT has been approved since the previous report. EAFRD is well-committed particularly on young farmers' start-up grants, food and drink, and on agri-environment and forestry which also have legacy commitments. However, other areas such as Small Farms grants have had slower uptake than initially anticipated, and Digital under EAFRD has started but no formal commitments have been made to date).

8. These commitment levels do not account for EMFF which is committed at UK level, and where commitments for the Scottish portion are currently at approximately 30% (€32 million of a Scottish allocation of €107 million).

Summary by Growth Area

9. 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 is identifying areas of demand which could take up significant levels of this funding in the second phase of the Programme. Since the last report to the JPMC (in November 2016) the anticipate approval for ERDF Improving ICT has come through, resulting in almost full commitment for ERDF Priority 2. Commitment levels are reasonable at this stage for ERDF Priority 3. However, the mismatch between committed funding and projected results continues. For example, the number of businesses supported remains much higher than anticipated at this stage in the Programme in comparison with the funding commitment levels, which means that the level of support provided to each company is much lower than anticipated. This may need adjustment of Programme targets. Commitment in ESF Priority 3 is lower than expected at this stage of the Programme. However, work on the review has 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. This continues to be balanced by good performance in EAFRD, especially for food and drink commitments and young farmers' grants.

10. The Sustainable Growth theme (ERDF) continues to perform well, with some 58.65% of available funds committed and a number of claims now through the payment system. Grant Schemes and Challenge Funds are included across the Sustainable Interventions and, despite a slower start to launching these, approval levels appear promising in terms of spending out committed funds. Capital expenditure features relatively significantly, in particular through a number of the Challenge Funds: an extension to the current end dates would help to enable additional funding rounds and progress towards achieving full spend against existing commitments. Whilst commitment levels in the H&I area are broadly as expected, availability of match funding appears to be hindering approval of projects through H&I Challenge Funds. Options to improve the uptake are being considered. There is no significant change in the anticipated performance against targets, although a time lag in reporting of some non-financial targets, such as CO2 reduction, is anticipated and will need to be taken account of in the preparation of next year's Annual Implementation Reports. Significant commitments continue on forestry and agri-environment (EAFRD), although the Environmental Cooperative Action Fund has been withdrawn pending redesign to address audit concerns.

11. Activity within Inclusive Growth is encouraging although approvals are slightly below forecast commitment levels, sitting between 31–39% of total allocations. Target achievement forecasts are not quite so positive with the implementation of many Operations under this growth strand only just commencing. Early indications are that demand under the

community- and social enterprise-focused Challenge Funds and Grant Schemes will be strong and in reality, actual achievement are expected to be higher than forecasts.

12. The provision of match funding remains a problem for some local authorities and as a result several have not pursued operations under either employability or social inclusion. The current Early Review may recommend redistribution of the unallocated funding to those areas where demand remains.

13. No claims were received during 2016 for the Youth Employment Initiative. In terms of results, the YEI operations are aiming to assist 19,954 individuals (compared to the programmed 17,000). The results projected are almost universally at, or higher than target, suggesting lower attrition rates throughout every intervention. The youth unemployment rate in South West Scotland has now fallen below the national average.

14. As noted previously, LEADER and the EMFF LAGs have also taken longer to establish, although all strategies are now approved and budgets allocated to local groups, and commitments have increased.

15. For more detail on the current position for the ESF and ERDF, please see the Early Review Paper.

Recommendations

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JPMC Secretariat
24/5/2017

SECTION 1: PERFORMANCE AGAINST THE PARTNERSHIP AGREEMENT

1a. Dashboard

Financial performance by fund

Fund	Programme value ¹ , €	Committed/ approved, €	% of target committed	Spent/claimed, € ²
EAFRD (Including VM)	841,458,131	479,750,821	57.01%	-
EMFF	-	-	-	-
ERDF	478,914,103	243,045,073	50.75%	31,464,812
ESF	465,952,940	212,895,995	45.69%	3,584
Total	1,786,325,174	935,691,889	52.38%	31,468,396

Financial performance by growth heading (whole programme)

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

Physical performance

EU 2020 Target	Baseline	Current
3% of GDP on R&D&I ³	1.39%	1.46%
Greenhouse gas emissions 20% lower (or even 30%, if the conditions are right) than 1990 ⁴	-23.5%	-39.5%
20% of energy from renewable sources ⁵	7.2%	15.2%
20% increase in energy efficiency ⁶	24.0%	41.7%
75% of 20-64 year-olds employed ⁷	73.1%	76.9%
School leaving below 10% ⁸	13.8%	10.6%

¹ Includes 2017 H&I uplift.

² Includes all claims approved as at 23/5/2017.

³ Source: GERD as a percentage of GDP, 2010 and 2015 figures.

NB baseline figures revised to retain comparability with current updates.

⁴ Source: Scottish Greenhouse Gas Emission 2014, % change between 1990 and 2010 and between 1990 and 2014.

⁵ Source: Energy in Scotland 2017, Share of renewable energy in gross final energy consumption, 2010 and 2014 figures.

⁶ Source: Energy in Scotland 2017, B & C (SAP 2009) Energy Efficiency Ratings, 2010 and 2015 figures.

⁷ Source: Eurostat, Employment rate (20-64), 2010 and 2015 figures.

⁸ Source: Eurostat, Early leavers from education and training, 2010 and 2015 figures.

At least 40% of 30 to 34 year-olds with tertiary education year ⁹	46.6%	58.2%
Reduce the number of people at risk of poverty or social exclusion ¹⁰	15.0%	15.0%

1. The Gross Expenditure in Research and Development (GERD) as a proportion of GDP has increased, from 1.39% in 2010 to 1.46% in 2015. This is below the 3% target.
2. Between 1990 and 2010 there was a 23.5% reduction in estimated emissions in Scotland. The last data published shows that emissions have continued to decrease and between 1990 and 2014 the reduction was estimated at 39.5%.
3. The proportion of dwellings categorised as “most efficient – bands B & C (SAP 2009)” stood at 24.0% in 2010 and stood at 41.7% in 2015. This represents a 74% increase in “most efficient” dwellings over the period.
4. In 2015, the proportion of people (aged 20-64) in employment in Scotland was 76.9% (73.1% in 2010), above the 2020 EU target of 75%.
5. In 2015, the proportion of early leavers (18-24) from education and training in Scotland was 10.6% (13.8% in 2010). This is still marginally above the aimed 2020 target of school leaving below 10%.
6. In 2015, 58.2% of people aged 30-34 had completed third-level education (46.6% in 2010). This is considerably above the 2020 target of at least 40%.
7. In 2014/15, the proportion of all individuals in relative poverty in Scotland – before housing costs – stood at 15%, as it was in 2010/11.

⁹ Source: Eurostat, Population aged 30-34 by educational attainment level, 2010 and 2015 figures.

¹⁰ Source: Poverty and Income Inequality in Scotland 2014/15, Relative poverty (below 60% of UK median income in the same year) in Scottish households - all individuals -, before housing, 2010/2011 and 2014/2015 figures.

PARTNERSHIP AGREEMENT RESULTS INDICATORS (Source: all applications and achievement data from ESIF programmes)						
Fund	Growth	Indicator [Investment priority]	Baseline	Target	Committed	Achieved
ERDF	Smart	Number of innovative active enterprises [1b]	11,000	12,600 (+1,600)	1,662 (13%)	0
		Additional leverage of BERD (GBP) [1b]	37,000,000	363,000,000	84128000 (23%)	0
		No of high speed broadband residential and business subscriptions in the Highlands and Islands [2a]	24,499	89,087 (+64,588)	89,087 (100%)	0
		Number of SMEs exporting [3d]	44,064	94,906 (+50,842)	1,904 (2%)	61
		Employment in Smart Specialisation Sectors [3d]	317,250	368,067 (+50,817)	3,875 (1%)	41
	Sustainable	Proportion of journeys to work undertaken by public or active travel [4e]	30.7%	32%	33% (103%)	0
		Journeys undertaken using smart ticketing [4e]	146,000,000	276,800,000	-	0
		Low carbon investment levered into Scotland by private and institutional investors (EUR) [4f]	28,500,000	413,000,000	592,959,493 (144%)	0
		Employment in low carbon sector in Scotland [4f]	78,000	81,900 (+5%)	80,805 (-1%)	0
		Positive rating of satisfaction with the quality of green infrastructure in urban areas in Scotland [6d]	74%	80%	75% (94%)	0
		Savings from resource efficiency investments in supported sectors [6g]	£6,000,000	£232,152,000	£45,411,000 (20%)	0
		Employment in circular economy [6g]	7,200	8,280	-	0
	ESF	Inclusive	(Composite) Unemployed or inactive people with multiple barriers in training, education or employment after 6 months [8i]	3,082	32,510	31,236 (96%)
(Composite) YEI Participants with sustainable outcome 6 months after leaving (all age groups) [8ii]			5,997	13,315	10,517 (79%)	7
Participants no longer affected by debt as a barrier to social inclusion [9i]			700	4460	6,216 (139%)	0
FTEs created in supported community/third sector/social enterprise organisations [9v]			11	100	195 (195%)	0
Total participants gaining ISCED level 3-5 qualification [10v]			5,361	34,368	17,109 (50%)	108

1b. Overall Economic and Political Context for programmes

Changes in the economy and labour market

17. The Scottish economy declined by 0.2 per cent in 2016 Q4 compared to the previous quarter, after it grew by 0.1 per cent in 2016 Q3. On an annual basis, comparing 2016 Q4 with 2015 Q4, the economy was flat (0.0 per cent change).

18. By industry, output in the Services industry in Scotland was flat in 2016 Q4 (0.0 per cent change), while Production contracted by 0.9 per cent and Construction contracted by 0.8 per cent compared to the previous quarter.

19. The latest Scottish Labour Market Statistics for December – February 2017 showed that over the quarter, the employment rate fell to 73.4 per cent (74.6 per cent in the UK as a whole). The unemployment rate also fell to 4.5 per cent (4.7 per cent in the UK as a whole).

20. The economic inactivity level (i.e. those neither in employment or unemployed) increased by 18,000 over the quarter, resulting in an increased inactivity rate of 23.0 per cent (21.6 per cent in the UK as a whole).

Changes in the Environment

21. The Scottish government regularly publishes statistics on a range of environmental indicators¹¹ in the form of Key Scottish Environmental Statistics. The latest publication in October 2016, from which the statistics below are taken, shows a generally positive trend on environmental factors ranging from emissions and recycling to water quality, habitats and biodiversity:

- Scotland's emissions continue to fall against an otherwise global increase, now standing at 46.7 million tonnes of carbon dioxide equivalent (MtCO₂e), 8.6% lower than 2013 and 39.5% below 1990 levels. There has also been a drop in air pollutant emissions of ammonia (13%), PM₁₀ (46%), non-methane volatile organic compounds (65%), nitrogen oxides (69%), carbon monoxide (75%), sulphur dioxide (90%) and lead (98%), although some areas continue to be a challenge for air quality standards.
- Household recycling rates continue to increase (44.2%, up from 42.8% in 2014). Between 2005 and 2014, total waste landfill decreased by 42% and biodegradable municipal waste landfill decreased by 51%.
- Water quality is improving gradually, both in drinking water (since 1992) and in water bodies (since 2013 and the introduction of Water Framework Directive standards). The level of coliform bacteria is now the lowest ever level recorded (at just 0.25%), river quality is increasing and 85% of the 81 coastal bathing waters met the new minimum European standard with 73% classified as excellent or good quality.
- Woodland area has increased by 2% since 1995, to 18.4% of Scotland's land. The area of designated protected areas and number and area of scheduled monuments has also shown an upward trend over the long term, as has their condition, with 80.4% assessed as being in favourable condition.

The abundance of terrestrial breeding birds¹², which is a proxy for wider biodiversity, has shown a long term increase of **21.3%** between 1994 and **2015**. **The index generally**

¹¹ <http://www.gov.scot/Publications/2016/10/7565> . Further detail on Scotland's environment can be found on the Scottish Government Environment Statistics [page](#) and on [Scotland's Environment Web](#).

¹² <http://www.gov.scot/Topics/Statistics/Browse/Environment/TrendBreedingBirds> – updated since the Key Scottish Environmental Statistics (2016) publication.

increased up to a peak in 2008, but has since decreased by 7% overall. There has been little change in the index between 2014 and 2015. However, decline continues for both wintering waterbirds and seabirds. This is a significant concern, and support for habitats and particular species support is available under the agri-environment schemes in EAFRD to mitigate these impacts.

SECTION 2: RESTATEMENT OF FINANCIAL PERFORMANCE REPORTED IN NOVEMBER 2016

The following tables were reported in Section 1a of the previous report to the JPMC in November 2016.

We have since identified an error in the commitment value reported under EAFRD for the Smart Growth objective. 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 (€)	Committed/ approved (€)	% of target committed
EAFRD (Including VM)	841,458,131	410,790,367 384,555,367	48.82% 45.70%
EMFF	-	-	-
ERDF	476,788,331	194,469,857	40.79%
ESF	464,149,373	193,760,187	41.75%
Total	1,782,395,834	799,020,411 772,785,411	44.83% 43.36%

Financial performance by growth heading (whole programme)

Growth heading	Programmed spend (€)	Committed/ approved (€)	% of programmed spend
Smart	470,814,808	177,788,602 151,553,602	37.76% 32.19%
Sustainable	901,980,079	453,832,133	50.32%
Inclusive	385,171,582	165,199,675	42.89%
T.A.	24,429,366	2,200,000	9.01%
Total	1,782,395,835	799,020,411 772,785,411	44.83% 43.36%