



Lowlands and Uplands Scotland ERDF and ESF Programmes 2007-2013 Programme Monitoring Committee

EXCEPTIONAL PROJECT PROCEDURE – CONSIDERATION OF ERDF STRATEGIC PROJECTS

1. Purpose

- 1.1 To advise the Committee of the recommendations from the Advisory Groups arising from the appraisal of the ERDF strategic projects submitted under the Exceptional Project Procedure in the LUPS ERDF Programme 2007-13.

2. Background

- 2.1 The Exceptional Project Procedure for the 2007-13 Programmes was originally approved by the Programme Monitoring Committee at their meeting on 19 March 2008. Subsequent revisions to this paper were approved by Committee in November 2008 and September 2009. The basis for this decision was a clear recognition that there may be special circumstances which prevent an application being submitted within the usual application deadlines. It was felt that an exceptional procedure needed to be established for such cases, particularly where projects for reasons of economic turmoil, large scale redundancy, market exploitation or private sector co-financing may be time critical.
- 2.2 Two applications which were rejected in the third round were appraised through the exceptional projects procedure. These applications, both submitted under ERDF Priority 3, were from Fife Council and Cube Housing Association. The Advisory Group had been supportive of the bids in Round 3 but concluded that the bids lacked a clear alignment with policy and that we needed more information on the level of innovation attached to each of the projects. The MA agreed to work with policy leads to develop clearer lines on the policy fit of the applications. Policy officials have now highlighted the strategic importance of this activity in terms of addressing key energy and low carbon economy policy objectives. In line with the Exceptional Project Procedure these applications were allowed to be re-submitted and assessed in advance of the scheduled timetable for Round 4.
- 2.3 As these applications were to be re-considered by the Advisory Group with input from Scottish Government Policy officials it was agreed that revised applications were not required. The following requests for ERDF funding were received under the Exceptional Project Procedure.

2.4 Summary of ERDF Bids received under the Exceptional Project Procedure:

Project Applicant	Project Title	Total Eligible Costs (£)	ERDF Request (£)	Intervention Rate (%)
Fife Council	Cardenden Heat and Power	6,263,000	2,505,000	39.99
Cube Housing Association	Maryhill Heat and Power	14,189,000	5,655,000	39.85
Total		20,452,000	8,160,000	

2.5 The report of the Advisory Group is detailed below at Section 4 with project recommendations.

2.6 At section 5 of this paper there is a financial summary providing the financial implications in ERDF grant terms of agreeing the various project recommendations.

2.7 Overall, and subject to this Committee agreeing to fund both projects, up to **£8,160,000** ERDF grant will be allocated at this time.

3. Advisory Group Process

3.1 In the normal way, full applications were subject to technical/eligibility checks by the IAB and appraisal by the Managing Authority, the IAB Programme Managers, Advisory Group members and Scottish Government policy experts. The policy experts provided input in particular into the fit with the strategic policies of the Scottish Government. External stakeholder members of the Advisory Groups were appointed by the Scottish Government as the Managing Authority.

3.2 The respective scores of the second stage application by the 'Virtual' Advisory Group members and the IAB Programme Managers, Managing Authority and Scottish Government policy experts were collated by the IAB and the previously agreed weighting factor applied. An average overall score was then calculated and checks were undertaken to ensure that any anomalous scores were justified and did not unreasonably affect the final score and ranking. If appropriate a Standing Advisory Group was convened to discuss applications. This afforded the opportunity to test and validate the initial scores in an open and frank debate where Standing Advisory Group members had been selected on the basis that they had no conflict of interest in respect of the projects under consideration.

4. Advisory Group Report

4.1 ERDF Priority 3 Advisory Group Report

4.1.1 The ERDF Priority 3 Advisory Group met on 4 May 2010 to discuss the two strategic bids submitted under the Exceptional Project Procedure. Group members received a presentation from Christine McKay, Renewables Strategy and Onshore Renewables Team, Scottish Government. Below is a summary of the Advisory Group discussion and overall recommendations.

4.1.2 LUPS/ERDF/2009/3/3/0192 Fife Council – Cardenden Heat and Power

The application had received a total score of 37.06 following assessment by Virtual Advisory Group members in the third round. The Chair advised the Group this application and Maryhill Heat and Power had originally been rejected as members had not felt that they were not sufficiently innovative in order to recommend them for support. It had been agreed at the previous meeting that the MA would work with Policy leads to draw up a specification with a view to commissioning a innovative energy production project which would fit within the scope of ERDF P3. However, following initial discussions with energy policy officials it became clear that the initial policy advice had been incomplete and the MA took the view that both applications should be reconsidered as they were both addressing key Scottish Government energy policy objectives. However, the Chair also advised members that both applications still have substantial state aids issues which the MA would work separately to resolve. Group members discussed the application and agreed that it was a strong application which was reflected in the score achieved. In addition it was acknowledged that this was the stronger of the two applications as it aimed to provide biomass-fuelled combined heat and power and represented a more viable option as it also included non-housing within the energy load e.g. swimming pools etc. resulting in a more even demand for energy particularly through the summer months. Group members also acknowledged that this project provided a good fit with Scottish Government energy policy. For these reasons the Advisory Group recommended the project for approval.

Advisory Group Recommendation: Recommended for Approval

4.1.3 LUPS/ERDF/2009/3/3/0263 Cube Housing Association Ltd – Maryhill Heat and Power

The application had received a total score of 35.42 following assessment by Virtual Advisory Group members in the third round. Group members discussed the project and acknowledged that the project did represent a good fit with Scottish Government Energy Policy. However, they also felt that there were still a lot of unknowns with regard to the proposed fuel source and that the application may have been submitted before all issues had been resolved. The application states that the likely fuel source is biomass in the form of woodchip, but gas CHP may be utilised initially, no clear rationale for this lack of clarity on such a fundamental issue has been offered. Members noted that this was a more expensive project compared to the Cardenden project and, based on the evidence supplied so far, did not appear to result in the creation of any jobs. In addition, the proposed model was not felt to be as viable as the Cardenden model as the energy load will be solely housing, although application set out an aspiration to include business space at some point. Advisory Group members were mindful of the remaining funds within ERDF P3 and recognized that in supporting both projects they would be committing 25% of the remaining balance. In making a supportive recommendation the Advisory Group noted that PMC would be discussing how to best utilize the remaining funds under ERDF P3 at the meeting on 19 May 2010. Therefore, it was agreed that this application would be recommended for approval to the PMC but with the caveat that the Advisory Group view the Cardenden application as a higher priority. If the PMC place a cap on the number of projects or the level of funding to district heating and CHP projects then only the Cardenden project should be supported.

Advisory Group Recommendation: Recommended for Approval (with the above caveat)

5. Implications of Approving Advisory Group Recommendations

5.1 The implications of approving the Advisory Group recommendations are summarised in the table below:

Priority	Total Grant Allocation* (£)	Approved Grant Commitments to date (£)	Available Allocation (£)	Value of bids recommended for approval (£)	Remaining Balance for 3rd Round (£)
Priority 1: Research and Innovation	82,898,704	73,780,463	9,118,241	0	9,118,241
Priority 2: Enterprise Growth	109,967,669	97,907,433	12,060,236	0	12,060,236
Priority 3: Urban Regeneration	91,357,756	60,142,182**	31,215,574	8,160,000	23,055,574
Priority 4: Rural Development	46,017,241	20,705,195	25,312,046	0	25,312,046
Priority 5: Technical Assistance	8,120,689	4,205,982	3,914,707	0	3,914,707
Total	338,362,060	256,741,255	81,620,805	8,160,000	74,460,804

*An average exchange rate of 1 EURO = £0.90 or £1 = 1.1111 has been used.

**The figures shown above as available take account of the £25 million that would be used to capitalise a JESSICA fund and also the £10 million grant allocation to fund activity complementary to JESSICA that was previously agreed by the PMC

6. Recommendations

6.1 The Committee is invited to:

6.1.1 agree in principle the recommendations for this extraordinary round of ERDF applications as detailed at sections 4.1.2 and 4.1.3 above.

6.1.3 note and agree the Advisory Group report summarised at section 4 above;

6.1.4 note the level of commitments for each Programme Priority as detailed at section 5.1 above; and

6.1.5 acknowledge the additional work carried out by the Advisory Group in appraising these project applications.

Susan Tamburrini
ESEP Ltd
Tel: 0141 241 6158
Email: stamburrini@esep.co.uk

May 2010