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

JESSICA – REPORT ON PROGRESS

1. Purpose

1.1 To update the Committee on how the MA has progressed their decision to form a group to consider the options for the operation of a JESSICA (Joint European Support for Sustainable Investment in City Areas) fund in the LUPS programme area.

1.2 The Programme Monitoring Committee (PMC) will wish to note that we have accepted a Stage 1 application from Regeneration Division of the Scottish Government to develop a JESSICA Holding Fund. The proposal would see the development of a fund that will invest in urban development funds in the local authority areas eligible to apply under ERDF Priority 3. The Committee will receive a presentation on the operation of holding funds from a representative of the European Investment Bank (EIB) at the meeting on 18 March.

2. Steering Group

2.1 The last PMC meeting agreed that the MA set up a Steering Group to direct the implementation of JESSICA. After consultation with COSLA the Steering Group has now been formed and the membership is shown at Annex 1.

2.2 Although the Steering Group did not meet formally until 5 March, the officers group, that supports its work, finalized the terms of reference for the scoping study that will be used to present options for the delivery of JESSICA at the PMC meeting on 27 May. The Steering Group subsequently agreed the terms of reference by written procedure. The terms of reference are attached at Annex 2 for information, although, as always, the outcomes and deliverables have been refined following discussions with the successful bidder. The inception report will be circulated to PMC members as soon as it is available.

3. Appointment of Consultancy Support

3.1 Following a procurement exercise we have appointed Ernst & Young to deliver the study. The team proposed by Ernst & Young have considerable experience of the regeneration agenda in Scotland. The network of contacts that the team can call on mean that they will be able to access people at an appropriate level across the public and private sectors. The indicative timetable for the delivery of the study is as follows:

Inception meeting	19 March 2009
Inception report	23 March 2009
Work Programme	March – May 2009
Draft report to PMC	27 May 2009

3.2 The costs of this consultancy support are substantial but are in line with our expectations and are substantially below the cost of similar studies in London and in Wales. To fund this work the PMC is asked to endorse an allocation of up to £50,000 of technical assistance to pay for the main study. This will also provide the MA and ESEP with a small additional budget to fund any elements of follow up work or research. Match funding for this TA is being provided by the Scottish Government and Scottish Enterprise.

4. Changes to Operational Programmes

4.1 The MA accept that if a JESSICA Holding Fund is to be seen as a credible and attractive funding option, to public and private sector developers, it is imperative that the scope of the eligible activity set out in Priority 3 of the Operational Programme should be widened.

4.2 Although it is accepted that the decision to recommend a change to the programme requires a decision by the PMC, the MA, following consultation with CPP representatives, has proposed a number of changes that we feel allow us to make a more positive contribution to funding integrated urban development plans. A draft of this proposal has been discussed, and broadly agreed, with DG REGIO. A copy of this initial proposal is attached at ANNEX 3.

4.3 The PMC will note that one of the deliverables attached to the consultancy support is a review of the eligibility of Priority 3 and this will build on this draft proposal and will be fully discussed at the Committee meeting in May. However, the draft paper will allow the Committee to feed in any immediate suggestions that they want to propose at this stage. The MA will then follow up those suggestions with the Steering Group and with external partners as appropriate and bring forward a discussion paper for the May meeting.

5. Recommendations

5.1 The Committee is invited to:

5.1.1 note that the Steering Group has now been established.

5.1.2 agree to allocate a sum of £50,000 of technical assistance to support the necessary consultancy support .

5.1.3 agree to accept a further paper from the MA setting out proposed changes to widen the scope of Priority 3 of LUPS ERDF programme.

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March 2009

ANNEX 1

JESSICA Steering Group

Alisdair McIntosh (Replacement tbc) (Head, Regeneration Division, Scottish Government)

John Rigg (Head, European Structural Funds Division, Scottish Government)

Wilson Malone (Head, Enterprise Policy & Delivery Division, Scottish Government)

Stephen Gallagher (Scottish Enterprise)

Pat McHugh (Scottish Enterprise)

Mike Callaghan (COSLA)

Robin Presswood (SLAED – Scottish Local Authority Economic Development Group)

Jim Cunningham (Glasgow City Council)

Stan Ure (Dundee City Council)

Maureen McConachie (North Lanarkshire Council)

Ian Manson (Clyde Gateway URC)

Gordon McLaren (ESEP)

Koen Delanghe (European Commission)

Frank Lee (European Investment Bank)

ANNEX 2

LOWLANDS AND UPLANDS SCOTLAND PROGRAMMES 2007-2013

Brief and Terms of Reference for a Study to Determine the Feasibility and Operational Parameters of a Scottish JESSICA Fund

1. Background - General

1.1 JESSICA stands for Joint European Support for Sustainable Investment in City Areas. It is an initiative being developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank.

1.2 The JESSICA programme gives Member States the option of using some of their EU grant funding – the European Structural Funds (ERDF & ESF) – to make repayable investments in projects that form part of an integrated plan for sustainable urban development.

1.3 In practice, JESSICA will allow ERDF to be used in the form of repayable loans, guarantees or equity for ERDF-eligible components of urban regeneration schemes in eligible areas across the Lowlands and Uplands Scotland Programme area. It will provide a source of loan finance or guarantees for integrated urban development plans capable of generating a financial return. Once returned, JESSICA funds could be reinvested in any activity relating to regeneration, such as housing or transport – not just ERDF eligible activities. This could leave a lasting legacy to fund urban regeneration projects within the Programme area beyond 2013.

How JESSICA works

1.4 JESSICA allows the use of interim payments by Managing Authorities from the ERDF via Urban Development Funds (UDFs) for investment in integrated urban regeneration projects through recyclable and recoverable financial mechanisms – essentially equity, guarantees and loans. Recovered funds may be reinvested through UDFs or returned to the Managing Authority to support other urban projects, including through conventional subsidies.

1.5 UDFs may take different forms and be devoted to investments in different areas. Their common features are a market-driven approach, as they are expected to at least recover their investment, and the fact that they must invest in projects within well-defined integrated urban renewal and development plans.

1.6 Managing Authorities may decide to invest directly in UDFs or, given the difficulty of managing non-grant instruments, channel funds to UDFs using holding funds, with the option of employing the EIB as fund manager. Detailed investment criteria and governance arrangements will be agreed by the Lowlands and Uplands Scotland Programme Monitoring Committee with the fund manager and project sponsor. It is envisaged that project selection and investment decisions will be the responsibility of an Investment Board, appointed by the Managing Authority and the partnership, acting on recommendations made by the fund manager.

2. Background – The Scottish Context

2.1 We recognise the role that previous European funding programmes have had in delivering urban regeneration outcomes in Scotland. However, it is likely that the 2007-13 Programme will be the last significant ERDF Programme available in Scotland that can operate a traditional grant approach to funding this type of activity. This factor, combined with a policy aim to put regional policy interventions in general on a more sustainable footing, has led us to conclude that the JESSICA funding mechanism allows us to derive longer lasting benefits from the European funding that is currently available.

2.2 The Scottish Government has provisionally expressed an interest in setting up a JESSICA Holding Fund (HF) consisting of £25m ERDF, matched by a potential mixture of land and property assets and cash.

2.3 Scottish partners are committed to exploring how a Scottish JESSICA Holding Fund should be established and have agreed to appoint consultants to assist in the process of identifying feasible options for using the JESSICA model in Scotland.

2.4 A JESSICA fund would be supported through the Lowlands and Uplands Scotland ERDF Programme 2007-2013 and specifically under ERDF Priority 3, Urban Regeneration. Part of the terms of reference for this study is to consider modifications to the eligible activities under Priority 3 with a view to creating greater flexibility and opportunities for a JESSICA Fund to play a more significant role in funding integrated urban regeneration plans. Appendix 1 provides detail on the current aims of Priority 3.

3. Specification and Scope

3.1 It is intended that working with the Steering Group the appointed consultants will review the rationale for, and the commercial and financial feasibility of, using JESSICA in Scotland, specifically addressing the options, risks, costs and benefits of using JESSICA.

3.2 The study should address the following three critical questions:

a) How could JESSICA be successfully used to unlock/facilitate the implementation of regeneration schemes in Scotland?

This task consists of four key elements:

- Analysing how JESSICA could improve upon the current investment/funding measures in Scotland in progressing regeneration programmes. This should lead to an assessment of the benefits of JESSICA in addition to or as an alternative to the existing funding/investment tools of intervention. In essence a JESSICA Fund needs to operate as a revolving fund providing a sustainable funding mechanism for strategic urban regeneration.

- Reviewing a small number of typical regeneration projects in Scotland, to be identified by the Steering Group, to describe how these could take advantage of a Scottish JESSICA model (descriptions of suggested case studies are attached as Appendix 2 to this brief). These are large scale, long term multi-agency regeneration projects that have been developed in the context of wider urban development frameworks. The purpose of this element of the study is to ensure that the approach to JESSICA is designed in a way that enables it to be utilised on a range of projects that are currently being progressed by various delivery structures in Scotland. In order for a JESSICA Fund to become a viable and self-sustaining investment vehicle, an assessment of the likely returns on investment should be made as part of the review of the case studies. Detailed baseline information will be made available for each of the case study projects, and local partners will work closely with consultants to assist them in this part of the task.

- The Scottish Government is currently reviewing the scope for eligible activities under the ERDF Programme, Priority 3, Urban Regeneration with a view to creating greater flexibility and opportunities for a JESSICA Fund to play a more significant role in funding integrated urban regeneration plans. The consultants should consider the proposed modifications to Priority 3 and make any recommendations, particularly in the context of their review of the case studies.

- Assisting the Steering Group in the development of selection criteria for the Holding Fund and/or Urban Development Funds that ensure that the Scottish Government regeneration objectives are implemented through the JESSICA Model. Levels of investment return should also be considered.

b) What is the optimal structure for JESSICA in Scotland ?

This task consists of four key elements:

- Identifying options for the structure and legal form of a JESSICA Holding Fund in Scotland reviewing the benefits and risks associated with different options taking account of the existing organisational framework in Scotland.

- Identifying and clarifying the roles and responsibilities of the various actors involved in the operation of a Holding Fund. The study should set out the respective roles of the Investment Board, the Holding Fund Manager, Managing Authority and Lowlands and Uplands Scotland Programme Monitoring Committee.

- Proposing and evaluating high level practical and robust options for implementation. This should set out options for the delivery structure below the Holding Fund. It should make use of the review of "typical development schemes" to identify any necessary adaptations to delivery structures that support the use of JESSICA funding. The consultant is to provide a recommendation as to the best way to take JESSICA forward.

- Identifying options for capitalising the JESSICA Holding Fund through discussion with the Steering Group. This should include an assessment of the approach to using publicly owned assets as part of the fund, and assessing and evaluating the various sources of match funding which might be available. This should address legal issues relating to the process of capitalising the Fund. The EIB will play a key advisory role in this part of the task.

c) How would the preferred JESSICA structure be delivered in Scotland?

This task primarily consists of:

- Developing detailed proposals for setting up the Holding Fund/ Urban Development Funds. Clarifying procurement processes that need to be put in place and the timetables associated with this.

4. Study Management and Reporting Requirements

4.1 A Steering Group will oversee the commissioning of the contract. Day-to-day contact will be with ESEP who will let the contract. The contract manager will be Gordon McLaren, Chief Executive with ESEP Ltd.

4.2 The successful contractor will be required to attend an inception meeting with the Steering Group to clarify the final study proposals.

4.3 Within a week of the inception meeting the consultants will provide an inception report summarising the consultants understanding of the brief, their proposals in meeting the brief and their timetable leading to the production of the final report.

4.4 The final report must include an Executive Summary summarising the key findings and recommendations.

4.5 The contractors may be asked to make a presentation of their findings, and recommendations to a meeting of the Lowlands and Uplands Scotland Programme Monitoring Committee on 27 May 2009.

5. Study Timetable

5.1 The key dates are;

- proposals to be submitted by Friday 20 February 2009
- interviews to be held week commencing Monday 2 March 2009
- contract to commence on Monday 9 March 2009
- inception meeting to be held on Tuesday/Wednesday 10/11 March 2009
- inception report to be submitted by Monday 16 March 2009
- initial draft report containing recommendations on selection criteria and implementation model to be presented to the PMC meeting on 27 May for endorsement
- draft Final Report to be submitted by Friday 29 May 2009

6. Submission of Proposals

6.1 In response to this brief, contractors wishing to undertake the work are requested to submit their proposals (5 copies, 4 bound and 1 unbound) **not later than 5.00pm on Friday 20 February 2009**. Electronic submissions will be accepted, providing the relevant hard copies arrive no later than 12noon on Monday 23 February 2009.

Submissions should be made to:

Susan Napier
ESEP Ltd
Forth House
Burnside Business Court
North Road
Inverkeithing
KY11 1NZ
Email: snapier@esep.co.uk

The proposals should include details of the following;

6.1.1 a nominated project director responsible for overall delivery of the study

6.1.2 a nominated project manager responsible for day-to-day management of the study

6.1.3 detailed CVs for the contractors team including details of any sub-contractors to be engaged on the study. It is expected that the contractors team will comprise an individual(s) with a detailed knowledge of financial engineering

6.1.4 a financial quotation providing an analysis of the estimated costs (to include reasonable expenses) to undertake the study. We would propose a payment schedule as follows;

- 30% on commissioning
- 30% at the agreed mid-point
- 40% balance on acceptance of the final report

6.1.5 a breakdown showing the input to the project along with the appropriate charge rate for each member of the nominated contractors team

6.1.6 a commitment to and demonstration of the contractors ability to deliver the work within the timescales set out in the brief and

6.1.7 a company capability statement including appropriate relevant experience of similar studies/assignments undertaken.

February 2009

JESSICA BRIEF: Appendix 1

Lowlands and Uplands Scotland ERDF Programme 2007-2013 – Aims of ERDF Priority 3, Urban Regeneration

As currently set out, the aim of Priority 3 is to increase the contributions of the most disadvantaged urban communities to Lisbon goals by supporting their regeneration.

By concentrating actions on sustainable development in the urban areas of greatest need the best use will be made of the limited funding available to make the greatest impacts on exclusion and poverty and help contribute to the Lisbon Agenda. Consequently, the Priority will increase the contributions of the most disadvantaged urban communities and will work in tandem with ESF Priority 1, Progressing Into Employment.

It will be a key criteria for successful sponsors to be able to demonstrate that ERDF Priority 3 projects are delivered with the support and active involvement of the local community and an appropriate range of partners. As a result, emphasis will be made on supporting projects that integrate together a range of activities to support urban regeneration.

Linking urban areas of need with areas of opportunity: It is important to invest in the social and economic infrastructure required to allow people living in disadvantaged communities to take advantage of training and employment opportunities elsewhere. ERDF funding can make key contributions in this area by supporting developments that empower individuals to gain access to such opportunities. **Eligible activities include:**

- Support for locally-based job brokerage schemes that aim to match disadvantaged individuals with employment opportunities
- Support for refurbishment and enhancement of locally-based training/learning and e-skills centres
- Supporting safe transport hubs to link areas of need with those of opportunity
- Support for investment in increased local access to ICT facilities within communities

Improving the potential capacity of urban areas to develop: To encourage enterprise formation and development and sustain existing SMEs within the most disadvantaged communities, additional specialised enterprise support will be funded. This will, in part, require improvements to the physical environment of some communities, though investments will be limited to small-scale infrastructure, such as affordable workspace for community and private enterprises. **Eligible activities include:**

- Support for the refurbishment of existing business support and incubator facilities and workspace to make them suitable for new or established SMEs (especially those that employ 'green design' principles)
- Support for improvements to incubator and business support facilities for social enterprises
- Support for initiatives to encourage low carbon employment sites and premises, including conversion of existing incubator and other workspace facilities
- Support for small-scale conversion and adaptation to industrial sites and business centres/facilities that offer employment or training opportunities to people living in targeted areas (especially those that employ 'green design' principles)

- Support to encourage communities to contribute to sustainable development goals through the application of renewable energy technologies for community energy needs, such as small-scale renewable energy production for local use, and the 'greening' of community regeneration construction projects

Delivery: Individual projects will be eligible, though the emphasis will be on projects that integrate several of the eligible activities. For the first two years of the Programme a share of funding from ERDF Priority 3 will be set aside to fund projects that are part of integrated packages of support put forward by Community Planning Partnerships (CPPs).

Spatial Targeting: Under ERDF Priority 3 a level of spatial targeting has been implemented. Areas will be eligible based on an annually reviewed and published list of local authorities meeting two criteria: the 10 authorities with the biggest share of the worst 15 per cent of deprived neighbourhoods and; the 7 authorities with the worst incidence of people not engaged in education, employment or training (NEET).

The following local authority areas are currently eligible for support under ERDF Priority 3:

- Clackmannanshire
- Dundee
- East Ayrshire
- Edinburgh
- Fife
- Glasgow
- Inverclyde
- North Ayrshire
- North Lanarkshire
- Renfrewshire
- South Lanarkshire
- West Dunbartonshire
- West Lothian

Although the MA will continue to review this list on an annual basis the Programme Monitoring Committee meeting in March will consider a proposal that the 13 areas listed as eligible in 2009 will remain eligible to submit integrated urban development plans to a JESSICA holding fund for the rest of the programming period. We believe that this change is necessary to take account of the long term nature of the activity that would be delivered through JESSICA and is intended give partners more certainty over eligibility. Although all of the areas listed above will remain eligible the proposal will also allow additional LA areas to come within Priority 3 if the agreed criteria would support that change.

Funding Allocations: The Total Funding Allocation is approximately £98.89m, with the Maximum Grant Intervention Rate of 40%. Funding committed to date (First Round) is £14.92m which includes the 13 CPP bids.

JESSICA BRIEF: Appendix 2

Sample Case Studies

1. RAVENSCRAIG

Overall Project Objectives

The site within the Ravenscraig project in Lanarkshire has been recorded as offering a unique asset and development opportunity within Scotland. The 455 hectare (ha) site is in single ownership and located at the heart of Scotland's "corridor of growth" between Glasgow and Edinburgh. Existing roads linking the site to the M74 and M8 motorways will be upgraded along with new rail connections to Glasgow and Edinburgh. The object of the Ravenscraig project is to transform Scotland's largest underperforming land asset into a new development which will act as a catalyst to attract further investment into the region.

The model for achieving development is commercially led.

Delivery Arrangements

The project is being delivered by Ravenscraig Limited, an Joint Venture Company led by the private sector. The members of the company are Corus, Wilson Bowden Limited and Scottish Enterprise (SE). Although not formal partners North Lanarkshire Council and the Scottish Government are involved with the project. The joint venture arrangements are enshrined in a legal agreement which outlines respective roles, risks and returns to be attributed to each party. The plan is for the developments at Ravenscraig to be taken forward over a 20 year period (from 2006) in a number of phases which would be carried out in accordance with an approved masterplan.

In 2006, the project masterplan was approved. Its aims were to:

- Generate significant private sector investment - £1.215 billion on completion;
- Enhance, build and grow the business base – provision of 216,000 sq m of commercial floor space;
- Create new employment opportunities – 11,952 fte jobs and a net increase in GVA of £116M per annum as a result;
- Provide skills and employment opportunities – 446 training places and 397 vocational qualifications;
- Attract and retain residents – provision of 3,500 houses for up to 10,000 people;
- Promote sustainable land use – remediate 455 ha through mixed use development; and
- Enhance and improve the external image of the region.

The RL Partnership was established informally in 1999 and was legally determined as a partnership in 2006. Prior to 2006, a demolition and decontamination programme was undertaken by Corus and two pre development phases were completed by SE, with assistance from European (EU) funding. The first Scottish Enterprise programme in 1998 involved the construction of a spine road through the site and the second programme in 2003 involved the remediation and platforming of 40 ha of land for commercial use.

In 2006, SE agreed to contribute £12.869M gap funding to phase 1 of the Ravenscraig development, which was to act as a catalyst for the overall development. Phase 1 was expected to be delivered over 8 years with a total cost of £62.802M and at that level cover all of the costs and provide a limited level of return for the JV partners

Investment committed to date:

Investment	**Corus**	**SE**	**EU**	**WBD**	**Total £M**
Decontamination & Demolition	20.00				20.00
1st Pre Development Programme		7.03	3.37		10.40
2nd Pre Development Programme		4.11	4.00		8.11
Planning & Design Fees (Historic)				1.30	1.30
Phase 1		12.869		20.10	32.969

Funding

To date, further phases have not been programmed. The Board of RL are currently reviewing the way forward with a view to bring forward options for delivery of future phases. It is programmed for this to be shared with the wider partners in May 2009.

2. TRANSFORMING DUNDEE

Overall Project Objectives

This ambitious scheme will transform the Tayside economy by creating a new central business district in Dundee which will accelerate the restructuring of the economy, helping to address low productivity levels (currently 93% of the Scottish level) and deliver £513M GVA to the Scottish economy. The Dundee Central Waterfront project, which is the core project, will reconnect Dundee city centre with the waterfront creating high quality development sites which will enhance Dundee's emerging role in the financial services sector as well as making a contribution to life sciences, digital markets and tourism by enhancing the poor perceptions of the region.

Delivery Arrangements

A formal partnership agreement between Scottish Enterprise and Dundee City Council will be signed to provide appropriate security for each partner. The Agreement will provide detailed controls in terms of the Dundee Central Waterfront but will also form the basis for a strategy which covers the rest of Dundee's Waterfront as part of the Transforming Dundee project. A Partnership Board is to be established to provide strategic oversight to a project delivery team comprising personnel from each of the partners.

An Economic Impact Assessment undertaken in June 2008 indicated anticipated quantifiable benefits include:

- Increase in productivity to Scottish level by 2020 (and to 95% by 2015)
- Increase in net GVA by £68M at 2018, by £268M at 2028 and £513M by 2048.
- 1065 FTE net jobs created by 2020 (400 FTE by 2015)
- Enhanced offer for business and financial services sectors (representing 50% of all new office floorspace within Dundee Central Waterfront by 2015);
- Increased inward investment (min. 20% of office floorspace will be businesses new to Dundee by 2015)
- 710,000sqft of high quality office space by 2020
- Increased awareness and perception of Dundee (targets to be set after 2009 baseline study)
- Increase in average rental levels to £15psf by 2010

Non-quantifiable benefits include: supporting growth sectors in the regional economy (such as Life Sciences, Financial Services and Digital Markets); securing increased private sector investment; ensuring integrated masterplanning of the area, optimising economic development; increasing investment and strengthening the financial and economic success; optimising existing public sector investment and encouraging brownfield development.

Funding

Funding for this project will be sourced by unlocking a range of public sector resources as well as leveraging private sector investment of circa £270M. The complex programme of physical works for the Central Waterfront will take 10 years to complete and plots will be released on a phased basis. The anticipated source of funding for the infrastructure works and associated development costs (£72.84M) will be; Scottish Enterprise (£33.01M), European funding (£0.95M), and Dundee City Council/City Growth Fund (£38.88m)

3. CLYDE GATEWAY

Overall Project Objectives

Clyde Gateway is one of Scotland's most significant regeneration projects. Focused on a former industrial area in the east end of Glasgow and extending into South Lanarkshire, the initiative seeks to capitalise on the opportunities arising from the new M74 motorway link and the East End Regeneration Route, bringing substantial amounts of land back into economic use and bringing new jobs, housing, and leisure opportunities to existing communities and the wider area. The project area also incorporates some of the key 2014 Commonwealth Games sites, including the Athletes' Village and National Indoor Sports Arena.

Delivery Arrangements

It is being delivered by an Urban Regeneration Company (URC), chaired by Robert Crawford. The URC has two main roles. It will provide strategic co-ordination across the whole of the Clyde Gateway area, particularly in areas such as employability and community engagement. It will also deliver specific projects, with others taken forward individually by partners (e.g. National Indoor Sports Arena) or by the private sector (e.g. Oatlands housing development). The URC's delivery focus in the first phase will be in Dalmarnock and Shawfield, where the intention is to create a nationally significant business location.

A key objective of the URC is to remove barriers to private sector investment, which requires a long term approach, building on cycles of investment to deliver sustained change and economic transformation.

Over the 25 years of the project, the URC aim to deliver the following outputs:

- Remediation of 350ha of derelict and contaminated land
- Increasing income at the regional level by £380 million
- Provision of 400,000 sqm of employment space
- Provision of 46,000 sqm of retail and related space
- Creation of 21,000 new jobs (gross)
- Provision of 10,000 new homes
- Increasing the population by 20,000

Funding

The Clyde Gateway URC's business plan points to total public expenditure of £655m over twenty years; of which the company will deliver £230m. The Scottish Government has confirmed a funding package of £62 million for the URC in the period 2007-11. Scottish Enterprise have also confirmed funding and the two local authorities will contribute land assets at nil cost to the URC.

ANNEX 3

Proposed Changes to LUPS ERDF Priority 3

This paper sets out proposals to widen the scope of eligible activity under the LUPS ERDF Priority Axis 3 – Urban Regeneration. Although the MA will take a paper to the P Mon C in March we anticipate that the substantive discussion on the paper is likely to take place at the May meeting.

The primary reason for widening the scope of the Priority is to allow a JESSICA fund to play a more significant role in funding integrated urban regeneration plans and for any holding fund that we create to be seen by partners as an attractive funding option. In addition the MA suggest that this is an appropriate point to review the range of activity allowed under Priority 3 for the following reasons:

- The current economic climate means that public sector resources are tight and are likely to remain so for the foreseeable future. This combined with the reduction in debt financing available to private sector partners has led to the re-emergence of market failures related to the delivery of major regeneration projects and the provision of business premises. This represents a real risk to the delivery of major regeneration projects already in the pipeline and to the longer term delivery of our regeneration plans.

- We have now run two calls for funding applications and it is clear that the level of activity in Priority 3 is lower than we had anticipated. This in itself is not a reason to widen the scope of the priority and the MA do not believe that partners have fully utilised the flexibility that already exists in the Priority. However, we have sought the views of Local Authority partners and they suggest that the list of activities allowed under Priority 3 is likely to mean that take up will remain slow in the next round. A review of the project proposals received in the first 2 rounds suggest that while all the approved project activity is worthwhile future applications will be in a similar vein and are unlikely to be particularly innovative.

Both of these problems are compounded as public authorities are likely to concentrate resources on major infrastructure projects and the provision of social housing in order to support the construction industry through the next 2 years (this is a key element of our Economic recovery Plan).

The Commission's Economic Recovery Plan appears to set a twin challenge to public authorities to utilise funding streams to provide immediate and real support to the economy while ensuring that we emerge from the current downturn in a good position to secure longer term economic growth and greater social cohesion. To allow the LUPS programme to assist in the effort of meeting those challenges we believe that change is required now.

We can achieve a more dynamic set of projects and therefore achieve the programme outcomes that link directly to Scotland's effort to deliver on the Lisbon goals if we widen the scope of priority 3 to include:

- Rehabilitation of the physical environment – including development of brownfield land and gap sites in areas of need

- Allow larger scale infrastructure projects than those currently allowed e.g. building business incubator space and learning facilities

- Energy efficiency measures in social housing

- Replacement of redundant buildings or new build where there is a demonstrated need and only as part of an integrated urban development plan.

The MA proposes the addition of the following text after the bullet points on Page 75 of the Geographical targeting section of the Operational Programme:

It is acknowledged that the longer development and delivery timetable attached to funding urban development plans through a JESSICA mechanism mean that we need to offer more stability around the eligibility of LA areas. Therefore areas listed as eligible during 2009 will remain eligible for the remainder of the programming period. The MA will continue to review eligibility on an annual basis and any area that become eligible for inclusion in Priority 3 will be added to the list of targeted areas.

The MA proposes the following amendments to existing eligible activities listed in Priority 3:

Page 76 under the section relating to Eligible Activities under the heading **Improving the potential capacity of urban areas to develop**,

(a) Insert the word “development” and the caveat attached as indicated below:

- Support for development, refurbishment and enhancement of locally-based training/learning and e-skills centres. (NB the development of training/learning and e-skills centres will only be allowed if it forms a component part of an integrated urban development plan).

(b) Insert the phrase “development and” and the caveat and delete the word “existing” as indicated.

- Support for development and refurbishment of existing facilities and workspace to make them suitable for new or established SMEs especially those that employ ‘green design’ principles (NB the development or workspace will only be allowed if it forms a component part of an integrated urban development plan).

(c) Delete the phrase “small scale” as indicated

- Support for small-scale conversion and adaptation to industrial sites and business centres/facilities that offer employment or training opportunities to people living in targeted areas (especially those that employ ‘green design’ principles).

- Support for small-scale energy production from renewable energy technologies in response to local energy needs.

In addition, the MA propose the following additions to the list of eligible activities set out in Priority 3.

(a) Support for projects that promote clean and sustainable public transport to link areas of need with areas of opportunity. (NB this activity will only be allowed if it forms a component part of an integrated urban development plan).

(b) Support for measures that stimulate energy efficiency in multi-family social housing (priority will be given to projects that form part of and integrated urban development plan). Further justification to follow

(c) Support for projects that invest in the rehabilitation of the physical environment (specifically work around the decontamination and servicing of brownfield land and gap sites but only if it can be demonstrated that the end use of the land is linked to ERDF eligible activity. This activity is eligible only as a component part of an integrated urban development plan and excludes development of public realm unless a reasonable and direct physical link is made with ERDF eligible activity).

Financial Tables

The financial tables currently envisage that all match funding will be sourced coming from the public sector. Although the economic climate suggest that this is the most likely source of co funding in the immediate future we propose to introduce some flexibility to the financial tables by allowing match funding for projects funded under Priority 3 to come from any combination of public and private sectors.

Conclusion

The MA accept that this proposal represents a fairly major revision of Priority 3, however, we believe that the programme should be flexible enough to allow us to make an immediate contribution to the emerging challenges faced by partners. We are convinced that the changes represent a reasonable response to the short term problems associated with the downturn but will allow us to contribute to the Scottish Government's medium and long term growth and regeneration aspirations.

European Structural Funds Division
The Scottish Government