



Lowlands and Uplands Scotland ERDF and ESF Programmes 2007 - 2013

PROPOSAL TO CHANGE PRIORITIES 1, 3 AND 4 OF LUPS ERDF OPERATIONAL PROGRAMME

1. Purpose

- 1.1 To seek the Commission's approval for the proposed changes to ERDF Priority 1, Research and Innovation, Priority 3, Urban Regeneration and ERDF Priority 4, Rural Development specifically with regard to the scope for eligible activities, eligible areas and in respect of the financial tables. We have consulted widely and the proposals have been considered by written procedure and approved by the LUPS Programme Monitoring Committee.

2. Background

- 2.1 The changes proposed have already been informed and refined through discussions with Commission officials and are now being formally submitted to the Commission for a Modifying Decision in respect of the Operational Programme. In respect of Priority 1, we propose a small amendment following discussions on the development of a major project. In respect of Priority 3, we aim to incorporate comments made by members of the Priority 3 Advisory Group and issues that have been raised throughout the development of the feasibility of developing a JESSICA framework. In respect of Priority 4, we reflect discussions with rural members of the East of Scotland European Consortium and other local authority representatives, and representatives of project sponsors in the South of Scotland.
- 2.2 The proposal to widen the scope of Priorities 3 and 4 is being brought forward now with a view to implementation during the third round of applications in the autumn of 2009. The MA suggests that this is an appropriate point to review the range of activity allowed under Priority 3 and Priority 4 for the following reasons:
 - 2.2.1 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.

- 2.2.2 The economic recovery plans published by both the European Commission and the Scottish Government require us to ensure that European funding programmes are fully aligned in the short term with counter recessionary measures being taken across the public sector while maintaining the strategic longer term view that Programmes continue to be well positioned to assist recovery.
- 2.2.3 We have now run two calls for funding applications and it is clear that the levels of activity in Priority 3 and 4 are lower than we had anticipated. We have sought the views of Local Authority partners and others, who indicate that the list of activities allowed under Priorities 3 and 4 is likely to mean that development of eligible projects will remain difficult. A review of the project proposals received in the first two rounds suggests that while all the approved project activity is worthwhile future applications will be in a similar vein and are unlikely to be particularly innovative.
- 2.2.4 In respect of Priority 3, the changes will 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.
- 2.3 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 The Scottish Government's Economic Recovery Programme).
- 2.4 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 twin challenges we believe that change is required now.
- 2.5 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 Priorities 3 and 4 within the framework of the Lisbon Strategy and the Economic Recovery Plan.
- 2.6 Details of proposals for change to Priority 3 are set out in Annex B. We propose that Priority 3 should be widened to include;
 - 2.6.1 Rehabilitation of the physical environment – including development of brownfield land and gap sites in areas of need
 - 2.6.2 Larger scale infrastructure projects than those currently allowed e.g. building business incubator space and learning facilities
 - 2.6.3 Energy efficiency measures in social housing
 - 2.6.4 Replacement of redundant buildings or new build where there is a demonstrated need (but only as part of an integrated urban development plan).

2.7 Details of our proposals for change to Priority 4 are set out in Annex C. We propose that Priority 4 should be widened by increasing the sustainable use of natural, historical and cultural assets in support of business and commercial development or in support of socio-economic development, within the framework of agreed local economic development strategies (except where this would conflict with the Scottish Rural Development Programme (SRDP). We also propose to amend the eligible areas to reflect absolute as well as relative concentrations of populations living in rural parts of local authority areas. We propose that the Priority should encompass;

2.7.1 Projects (other than those eligible for support under the SRDP) to develop new products, services and processes based on the region's natural resources

2.7.2 Projects (excluding those eligible for support under the SRDP) that enable the cultural and historical heritage of an area to be more fully developed and marketed.

Details of the consequent changes to the financial tables are set out in Annex D and Annex E.

The Commission is asked to approve the proposed amendments and it is anticipated that Commission approval, if granted, would permit implementation in Round 3 of the Programme

PROPOSALS FOR CHANGE – PRIORITY 1, RESEARCH AND INNOVATION

1. Although we expect the impact to be limited to projects already in development the MA proposes the deletion of the word small scale as indicated.
 - 1.1 Support for *small scale* research infrastructure in research centres of expertise.

PROPOSALS FOR CHANGE – PRIORITY 3, URBAN REGENERATION

1. Eligible Areas

- 1.1 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:
- 1.2 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 becomes eligible for inclusion in Priority 3 will be added to the list of targeted areas.

2. Eligible Activity

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

At page 76 under the section relating to Eligible Activities and under the heading **Improving the potential capacity of urban areas to develop**,
- 2.2 Insert the word “*development*” and the caveat attached as indicated below:
 - 2.2.1 Support for the *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 will form a component part of an integrated urban development plan).
- 2.3 Insert the phrase “development and” and the caveat and delete the word “existing” as indicated.
 - 2.3.1 Support for the *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 of workspace will only be allowed if it forms a component part of an integrated urban development plan).
- 2.4 Delete the phrase “small scale” as indicated.
 - 2.4.1 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).

- 2.4.2 Support for *small-scale* energy production from renewable energy and low carbon technologies in response to local energy needs, such as co-generation and distribution energy systems (such as district heating and CHP projects).
- 2.5 In addition, the MA propose the following additions to the list of eligible activities set out in Priority 3.
 - 2.5.1 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).
 - 2.5.2 Support for schemes that pilot or demonstrate new or innovative approaches to energy efficiency retrofit measures – in particular targeting the retrofit of existing social housing stock.
 - 2.5.3 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. (NB 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).

PROPOSALS FOR CHANGE – PRIORITY 4, RURAL DEVELOPMENT**1. Eligible Areas**

- 1.1 The MA proposes a modification of the text on geographical targeting on page 83 of the Operational Programme. We wish to retain the current focus on populations living in ‘remote rural’ and ‘accessible rural’ areas as defined in the Scottish government’s six-fold urban/rural classification. We also wish to retain local authority areas as the unit of eligibility. However, it has become clear that restricting eligibility to local authorities with more than 25% of their population in such areas has the effect of excluding significant rural areas. There are local authorities where large absolute numbers of people live in ‘remote’ and ‘accessible’ areas, but where high overall populations mean these concentrations do not meet the required percentage. In the first paragraph under this heading, therefore, we propose – subject to Ministerial approval – to change the final sentence to read “Consequently eligibility will be for those Local Authorities with more than 35,000 people (or more than 25% of their population) in ‘remote’ or ‘accessible’ rural areas”. This proposed change should widen eligibility slightly and enable projects to be brought forward from more areas under this Priority.

2. Eligible Activity

- 2.1 The MA proposes to widen eligibility for Priority 4 so that it continues to fit within the agreed strategy and objectives of the Programme and enables more economic development projects to be brought forward. We have noted the view expressed by partners in rural authorities (including the East of Scotland European Consortium, and in the South of Scotland) that the current eligibility criteria are drawn too tightly to permit the development of high-quality projects that could enable rural areas to contribute more fully to the attainment of Lisbon goals.
- 2.2 We have also noted the conclusions of the European Council held in Brussels in May 2009, *inter alia* that ‘culture, creativity and innovation are vital for the competitiveness and development of our economies’ and that strategic investment in culture “should be considered as an integral component of the future of the Lisbon Strategy beyond 2010”.
- 2.3 We are also conscious that a clear demarcation exists between the Scottish Rural Development Programme (SRDP) and Priority 4. We wish to maintain that clear demarcation, which is set out in Chapter 10 of the SRDP. We do not propose to extend eligibility to any activity that can be funded by the SRDP.
- 2.4 The MA therefore proposes the following additions to existing eligible activities listed on page 84 of the Operational Programme.
- 2.5 Under the heading “Rural diversification”, add two further points:
- 2.5.1 Support for projects (excluding those eligible for support under SRDP) aimed at increasing the sustainable use of natural, historical and cultural assets in support of business and commercial development, or in support of socio-

economic development, within the framework of agreed local development strategies

2.6 Under the heading “Key shared services”, remove the words “small-scale” from the second and third points.

2.7 Also under that heading, add new points as follows:-

2.7.1 Projects (other than those eligible for support under SRDP) to develop new products, services and processes of benefit to groups of enterprises and sectors based on the regions natural resources.

3. Application Of Proposed Changes

3.1 It is proposed that these changes will apply to all areas eligible under Priority 4, whether delivered within the South of Scotland Global Grant Body’s area or in other eligible areas. .

FINANCIAL TABLES – PRIORITY 3 AND PRIORITY 1

1. Public Sector Match

- 1.1 It is recognised that sourcing match funding is already a challenge and that this situation is likely to become a greater barrier to the delivery of the Programme objectives in a period of challenging public sector finance settlements. Despite exchange rate movements having an impact on the level of public sector match required, the MA accept that the level of co-financing set out in the Programmes should not reduce. However, we believe that the higher intervention rates offered in Priority 1 have helped to stimulate a high level of demand and that we should aim to use the same mechanism to incentivise Priority 3. The MA therefore propose that the sources of funding outlined in Table 13 (page 90 of the Operational Programme) should increase the level of national funding in Priority Axis 1 and decrease the amount required in Priority Axis 3. The changes are outlined in Annex D.

2. Public/Private

- 2.1 The financial tables currently envisage that all match funding will be sourced from the public sector. Although the economic climate suggests that this is the most likely source of co-funding for the immediate future we propose to introduce some flexibility to the financial tables that would allow match funding to come from any combination of public and private sectors.

3. Conclusion

- 3.1 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 a 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 deliver the outcomes and vision of the LUPS ERDF Programme and contribute to the Scottish Government's medium and long term growth and regeneration aspirations. Members of the PMC are asked to agree these proposals.

ANNEX E

Table 13: Priorities by source of funding (€)

	Community Funding (a)	National Funding (b)	EIB Contributions	Other	Total Funding (c) = (a) + (b)	Co-financing Rate (d) = (a)/(c)
Priority Axis 1	92,109,671	154,873,742	0	0	246,983,413	37.294%
Priority Axis 2	122,186,299	183,279,449	0	0	305,465,748	40%
Priority Axis 3	101,508,618	109,967,670	0	0	211,476,288	48%
Priority Axis 4	51,130,268	76,695,402	0	0	127,825,670	40%
Priority Axis 5	9,022,988	9,022,990	0	0	18,045,978	50%
Total	375,957,844	533,839,253	0	0	909,797,097	

We propose the removal 42,295,255 EUROS from National Public Funding in Priority 3 and that the same amount is added to Priority 1. The consequences are to increase the average grant intervention rate in Priority 3 to 48% and decrease the average intervention rate in Priority 1 to 37.294%. As the bulk of the resources in Priority 1 has already been allocated at an intervention rate of below 30%, this reduction should not pose a problem.