

Environment and Sustainable Communities Overview and Scrutiny Committee



17 April 2015

European Structural and Investment Funds – Low Carbon Economy

Report of Ian Thompson, Corporate Director, Regeneration and Economic Development

Purpose of the Report

1. To inform the Environment and Sustainable Communities Overview and Scrutiny Committee about the latest developments with regard to European Structural and Investment Funds Low Carbon Economy funding and set out the opportunities that are available to County Durham.

Background

2. European Structural and Investment Funds (ESIF) represent a single growth programme combining European Regional Development Fund (ERDF), European Social Fund (ESF) and part of the European Agricultural Fund for Rural Development (EAFRD). For the North East LEP area the 2014 – 2020 ESIF Programme incorporates £250 million of ERDF and £212 million of ESF including £135m for County Durham. This money must be match funded but because County Durham is a Transition area, 60% of total costs can be drawn down, with a requirement to find a minimum of 40% match.
3. The ESIF Growth Programme's top priorities are:
 - support for small and medium-sized businesses
 - Innovation and research and development
 - low carbon economy
 - skills
 - employment and social inclusion

Of most relevance to the Committee is the low carbon economy element which is ring fenced as 15% of County Durham's total ERDF allocation (around £18m). Low carbon economic growth has not featured in previous rounds of ESIF and so very little experience or knowledge existed across the NELEP area to support the development of a pipeline of potential projects.

4. Consequently, Durham County Council's Sustainability and Climate Change Team contributed significantly to the NELEP low carbon submissions to Government and led the development of a portfolio of potential low carbon economy projects for the whole NELEP area. A significant amount of work has been led by this Team over the past 16 months, both in County Durham

and at LEP level, to build new partnerships and identify good low carbon projects. This has put the Council in an excellent position to ensure that projects that could benefit County Durham fit well within the programme.

Current Position

5. The Government is continuing to negotiate the England Operational Programme with the European Commission. Pending final agreement and formal adoption, anticipated in June 2015, the Government advised that an early round of calls for projects would be launched in March 2015. Within the North East the early ERDF calls focus on innovation and SME competitiveness. Owing to low carbon being a new activity for ERDF and the questions remaining over the eligibility of activities and outputs, it favours later project calls to be issued, once the Operational Programme has been approved.
6. On 20th March 2015 a revised, draft English ERDF Operational Programme was circulated. This important document sets out the areas of activity that can be supported under the ESIF programme and the rules and the parameters of spending that the EU Commission will agree to in the UK. Projects must have a defined start and end date and must meet the eligible activity. A minimum of 40% match funding needs to be secured by the project sponsor (50% match is required in the rest of the north east which does not qualify as 'Transition') and records of activity, spend and outputs must be kept for up to 10 years following project completion. It is anticipated that the full programme will commence in summer 2015.
7. Full details of each of the ERDF priority axes are still being negotiated with the European Commission with final certainty anticipated when the England Operational Programme is formally adopted. Under the current, draft document Priority Axis 4, the low carbon economy, is described as 'supporting the shift towards a low carbon economy in all sectors'. The investment priorities are:
 - **Investment Priority 4a** : Promoting the production and distribution of energy from renewable sources
 - **Investment Priority 4b** : Promoting energy efficiency and renewable energy use in enterprises
 - **Investment Priority 4c** : Supporting energy efficiency, smart energy management and renewable energy use in public infrastructure, including in public buildings and in the housing sector
 - **Investment Priority 4e** : Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures
 - **Investment Priority 4f** : Promoting research and innovation in, and adoption of, low carbon technologies
8. Two other relevant Priority Axis areas in the Operational Programme are:
 - Priority Axis 5 'Promoting climate change adaptation, risk prevention and management'

- Priority Axis 6 ‘Preserving and protecting the environment and promoting resource efficiency’

These are not included in the ring fenced low carbon economy allocation but are loosely linked in the NELEP ESIF strategy under ‘low carbon and sustainable growth’. There is still a lack of clarity as to what measures could be included under these two but there is potential for Green Infrastructure, climate change adaptation and flood alleviation projects, depending on eligibility issues.

9. A great deal of work has taken place over the past 16 months to engage key partners in County Durham and develop eligible project opportunities. Active partners include Durham University, especially the Durham Energy Institute; the Altogether Greener and Local Nature Partnerships; Northern Power Grid; VONNE; the Environment Agency, the Federation of Small Businesses and Chamber of Commerce. Extensive support has been received from directorates across DCC.
10. Key project opportunities have been identified and work is now progressing to develop these. The following section sets out projects currently being explored although these should be seen as a snapshot in time since each is complex and constantly changing.

11. Project Opportunities

- a. Durham Business Energy Efficiency Project (BEEP)
This project could meet several of the ERDF low carbon outputs and is under consideration as a project that could be led by the Council. A website will present easy to understand case studies and information about energy efficiency and renewable energy technologies and actions for businesses, especially SMEs. Business pilots are under development and appropriate financial instruments & mechanisms are being explored to supply both energy surveys and assistance with implementation.
- b. Community Energy
A Community energy project is under discussion with VONNE, which could link to the BEEP project to support community buildings to reduce energy consumption. The project will also explore community owned renewable energy schemes.
- c. Housing
There is significant potential for energy efficiency housing schemes to be developed following the successful model delivered in Craghead, which benefits home owners and private and social rented tenants. However, in order to progress the project proposal, clarification is required on the Government’s output indicator definitions, which appear to exclude any project that could receive ECO or Green Deal funding.

- d. Biomass
The Overview and Scrutiny Committee has recently been involved in discussions about using ERDF to develop the biomass supply chain in County Durham. Such a project appeared to be ineligible but the new draft Operational Programme emphasises biomass so exploration of this issue will continue.
- e. District Heating
District heating is also heavily featured in the Operational Programme and is an aspiration for Durham City, especially as a benefit for the Aykley Heads site. The DECC Heat Networks Delivery Unit has provided a grant of £77,000 to explore the opportunities, including heat pumps from river water and minewater.
- f. Geothermal Energy
Eastgate is the best site for geothermal electricity generation in the UK but ownership issues and grid problems mean that it is highly unlikely that a project will be developed under the current EDF programme. There is potential for using the hot water for agriculture, however, so this and other potential geothermal sites are still being explored.
- g. Water Science Hub
A virtual water research centre is under discussion, led by the Environment Agency and Durham University, as nothing similar exists in the UK. This would enable skills and training, the sharing of good practice and new research and development opportunities across the water economy.
- h. Low Carbon Strategies
The new, draft Operational Programme emphasises 'low carbon strategies' for all types of territory but discussions with DCLG and DECC suggest that there is no clarity over what such a strategy would involve. Durham has a Climate Change Strategy and a Sustainable Energy Action Plan in place but may need to develop an additional document, depending on future guidance. Sustainable transport appears to be central to the Government's plans for such strategies and discussions are therefore being held with the Council's Sustainable Travel Team.

12. Work on the low carbon economy has highlighted the need for funding to assist with developing the detail of potential projects to explore compliance, state aid, match funding, financial instruments, etc. It is hoped that Technical Assistance money might become available for this now that the negotiations between Government and Europe have enabled the first calls to go out.

13. At NELEP level, a consultant was appointed to build on the work that Durham has led over the past year and develop a pipeline of projects across the region. His work has once again highlighted the lack of any leadership on the low carbon economy at regional level, which is a significant gap and missed opportunity, given the £70 million available.

14. The Team is also exploring various European transnational programmes which are currently encouraging projects that address the low carbon economy. These include Horizon 2020 which is 100% funded, where a community energy scheme is being developed with Durham University; Interreg Europe! which attracts 85% funding and could be used to fund a low carbon partnership scheme; and Interreg North West Europe which offers 60% funding opportunities and could possibly be used for both Biomass and Business Energy projects.

Recommendations

15. The Environment and Sustainable Communities Overview and Scrutiny Committee is asked to:

- Note the content of the report.
- Offer views as to direction of travel of the emerging programme.
- Receive further reports as the programme progresses.

Background Papers

North East Local Enterprise Partnership European Structural and Investment Funds Strategy 2014-20.

England draft Operational Programme 2015

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APPENDIX 1 - Implications

Finance – None

Staffing - None

Risk - None

Equality and Diversity/Public Sector Equality Duty - None

Accommodation - None

Crime and Disorder - None

Human Rights - None

Consultation - None

Procurement - None

Disability Issues - None

Legal Implications - None