



**LOCAL REGENERATION FUND: NEW  
ARRANGEMENTS FOR DISTRIBUTING MATCH  
FUNDING RESOURCES**

## **CIRCULAR NO. 30/01**

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To: Chief Executives of local authorities in Wales

October 2001

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### **LOCAL REGENERATION FUND MATCH FUNDING ARRANGEMENTS: INTRODUCTION OF INDICATIVE ALLOCATIONS**

#### **Introduction**

1. This Circular relates solely to the use of Local Regeneration Fund (LRF) to match fund projects requiring European funding. Future arrangements for use of LRF for other purposes will issue separately.

#### **Purpose of LRF**

2. The purpose of LRF is to support sustainable regeneration or development within, or benefiting, the most deprived areas of Wales. It is aimed at encouraging projects which:

- are economic in focus but which clearly reflect the social and environmental needs of their areas in line with the principles of sustainable development;
- offer long term solutions not short term gains

3. LRF match funding will be available for local authority led capital build projects, including voluntary or private sector projects which the authority intends to sponsor directly.

#### **Legal Powers**

4. Funding will be in the form of 100% grant towards approved capital costs and, in some cases, related revenue expenditure. The grants are awarded under the powers of the Housing Grants, Construction and Regeneration Act 1996. The grant will be paid to the local authority.

#### **Key Aspects of New Arrangements**

5. Local authorities whose area will benefit from either Objective 1, Objective 2(transitional and/or new) or URBAN funding will receive an annual formula based indicative LRF allocation to match fund project applications under these European Programmes and Community Initiatives. The allocations will be reviewed annually in

the light of Assembly decisions on the overall resources to be made available. Under the new arrangements, local authorities:

- will receive separate indicative allocations to match fund projects under the Objective 1, Objective 2 and URBAN programmes. LRF indicative allocations can also be used to match fund INTERREG 3A and 3B projects, where appropriate
- may only use the LRF allocations to match fund project activities eligible under specific capital and capital/revenue measures
- will not be provided, in advance, with capital and revenue splits for LRF indicative allocations. Instead, each local authority will be asked to inform the Assembly of anticipated LRF capital and revenue spend each Autumn, with confirmation based on annual outturn figures the following Spring
- can sponsor and submit an LRF application on behalf of another organisation for an eligible project, provided that it is appropriate for the organisation to receive LRF support
- will submit LRF match funding applications to the Welsh European Funding Office (WEFO) alongside the related application for European funding for the project
- will ensure that the project seeking joint European and LRF funding has the support of the relevant Objective 1/Objective 2 local partnership
- will be able, in certain circumstances, to carry forward underspend to the following year

6. In addition, as part of the introduction of LRF indicative allocations the following transitional arrangements will apply:

- local authorities in the Objective 1 area will have to meet 50% of existing LRF forward commitments in 2001-02 and 2002-03 from these indicative allocations
- further indicative allocations will be issued in 2001-02 if LRF match funding is not confirmed for several 'approved in principle status' projects from the previous bidding round
- local authorities will be able to carry forward all LRF allocations that have not been approved against specific projects in 2001-02

### **Eligibility and Criteria for LRF Support**

7. LRF indicative allocations must be used to match fund European grants for projects submitted under the following European Programme Complement Priorities and Measures:

**Objective 1** - Priority 1 Measures 1, 3 and 5; Priority 2 Measures 1, 3 and 5; Priority 3 Measures 3 and 4; Priority 4 Measure 4; Priority 5 Measures 4, 6 and 8; Priority 6 Measures 1, 2, 3 and 4

**Objective 2** - all Measures

**URBAN** – all Measures (subject to approval of Programme Complement later this year

LRF indicative allocations cannot be used to match fund any revenue only projects under the above European Programmes and Community Initiatives.

8. Local authorities covering the Objective 1 area can also use their LRF indicative allocation to match fund INTERREG 3A and 3B projects, provided that the costs are primarily capital and the local authority can demonstrate that there is no other more appropriate and accessible match funding source.

9. Applications for funding under European Programmes and Community Initiatives are expected to have regard, where relevant, to Assembly policies and initiatives. There will be no additional LRF criteria, and any LRF approvals will be determined by the outcome of the related European grant bid. The joint applications for European and LRF support will go through a single assessment process by WEFO against the aims, objectives and eligible activities of the relevant Objective 1, Objective 2 or URBAN Priority and Measure.

10. It is for local authorities to determine which projects seeking European funding they consider appropriate for match funding from their LRF indicative allocations. In doing so, they may wish to invite and consider sponsoring LRF match funding for projects from other organisations, in particular the voluntary and community sector. LRF should not normally be made available to sponsor projects being led by other public sector bodies where core funding or alternative sources of match funding are already directly available to them for this purpose. However, there may be exceptions, such as a joint venture between the body and a local authority. WEFO would be happy to provide more detailed advice to a local authority on the possibility of LRF match funding in these circumstances. In many cases LRF indicative allocations are likely to be used alongside WDA and other public and possibly private and voluntary sector funding to drawdown European grant.

11. A local authority may also, exceptionally, consider sponsoring a project being taken forward by a private sector company. Before doing so, it should satisfy itself as far as possible that there is not a more appropriate source of match funding available to the company, particularly Pathways to Prosperity funding, and that the project meets State Aid and other EU regulations. A local authority should not sponsor and submit an LRF application on behalf of any organisation if it is aware that alternative sources of match funding are more appropriate and accessible.

## **Introduction of LRF Indicative Allocations in 2001-02**

12. The consultation document issued on 16 July set out options for distributing indicative allocations on a formula basis, weighted by indicators for local population, mullet-deprivation indices and sparsity. The final distribution methodology has now been confirmed by Ministers and is outlined at Annex A. The preferred implementation option also included transitional arrangements where the remaining Welsh Capital Challenge and Local Authority Rural Scheme commitments, which end in 2001-02, and 50% of the approved LRF forward commitments in 2001-02 and 2002-03 to match fund Objective 1 approvals from earlier rounds, would be met from unallocated LRF resources. These transitional arrangements also apply to several projects where the confirmation of LRF funding against the existing “approval in principle” status is still subject to approval of the related Objective 1 bid.

13. The uncommitted LRF resources in 2001-02, 2002-03 and 2003-04 will be distributed through indicative allocations to those local authorities in the Objective 1 and Objective 2 areas, and to Wrexham County Borough Council for the URBAN Community Initiative, at the levels shown in the tables at Annex B. Those local authorities in the Objective 1 area with approved LRF forward commitments in 2001-02 and 2002-03 will be expected to meet the 50% balance of funding required from these indicative allocations.

14. It is intended that local authorities should be informed of their annual indicative allocations as soon as the outcome of the Assembly Budget Planning round is known. These indicative allocations will not be split between capital and resources prior to the new financial year; and local authorities will not be expected to forecast likely capital and revenue splits for their indicative allocations until the early Autumn. The actual outturn will be confirmed at provisional annual claim stage the following June.

## **Confirmation of LRF Indicative Allocations Beyond 2001-02**

15. The indicative allocations in the tables at Annex B for 2002-03 and 2003-04 are subject to final confirmation by the National Assembly as part of the annual Budget Settlement.

## **Bids for Revenue Resources**

16. LRF revenue applications will be considered under eligible capital/revenue Measures provided that the costs can be shown to support and add value to the LRF capital application, and do not exceed them. Where applicable, all revenue applications will need to demonstrate how any long term revenue commitment to sustain the project will be met after the required LRF support ends.

## **Level of LRF Applications and Duration of LRF Support**

17. Local authorities will need to satisfy themselves that an LRF application to utilise indicative allocations is for the minimum necessary for the project to proceed, and that all other likely sources of match funding have already been pursued and maximised. This applies equally to LRF applications submitted by local authorities on behalf of other organisations and local authorities must confirm to WEFO that the organisation has demonstrated the need for the level of LRF support sought.

18. The duration of any LRF support approved will reflect the funding time-scale of any European grant approved and cannot continue beyond the end of the financial year during which the European grant approval ends. Local authorities will be expected to address sustainability issues in all cases, as part of the joint European and LRF application, and especially where long-term revenue support from non LRF resources will be required to sustain the project.

### **Non Eligible Costs**

19. LRF bids can only be submitted to match fund eligible European Structural Fund costs and applicants must demonstrate, as part of the European grant bid, how all non-eligible costs will be met.

### **Sustainable Development**

20. As a consequence of the Assembly's duty in relation to sustainable development it is committed to looking holistically at social, economic and environmental issues and to find ways of ensuring their integration into policies, programmes and grant schemes. Local authorities will be expected to ensure that the joint European and LRF application addresses sustainability issues, including any need for long-term revenue support for a project after the end of the required European and LRF grant.

### **Communities First**

21. The Assembly's Communities First programme is a non-prescriptive approach based on the principle that regeneration and community renewal should meet the needs and priorities determined by communities. The Communities First programme is being targeted at the most deprived communities in Wales; it will involve long term commitment by local authorities, the Assembly and other key agencies to promote real partnerships at local level for the delivery of action. It will help communities to take the lead and build capacity for sustainability. Community First Partnerships and local authorities will want to give careful consideration to how LRF match funding will be used to help achieve the programme's aims within the context of the application being made under the European Programme or Initiative.

### **Equal Opportunities**

22. Local authorities are encouraged to ensure that joint European grant and LRF applications take account of the National Assembly's statutory duty to have due regard for equality of opportunity for all the people of Wales. To this end authorities should

consider, within the areas covered by the Programmes and Initiatives, how their proposals take account of the needs of different groups in the communities, in particular black and ethnic minority groups, disabled people and women.

### **Better Health and Well Being**

23. The National Assembly for Wales issued its strategic plan- Better Wales- in April 2000. The plan recognised that a country's public health is closely linked to its standard of living and the strength of its economy. What applies to countries tends to apply to its local communities. On average, the health of the people of Wales is well below the EU norm and health levels in our most deprived communities are at the bottom of the European league table. This is unacceptable.

24. The National Assembly is taking a proactive approach to helping people to improve their health and to reduce the clear inequalities in health that exist between communities. It is determined to tackle the root causes of ill health, including poor housing, unemployment and the stresses and strains that are often linked to living in rundown, threatening communities with high levels of crime. The "Strategic Framework" and plan for "Improving Health in Wales" sets out ways to build on the well regarded, multi-sectoral Better Health, Better Wales programme. The objectives are encompassed within the Government's promotion of, and commitment to, sustainable development; and local authorities should consider and demonstrate, where appropriate, how the joint European grant and LRF application will encourage sustainable health and well being. The use of tools such as health impact assessment can help to do this.

### **Other public sector finance/multi-funded projects**

25. The approval of LRF funding does not preclude assistance from other central government sources, or from public bodies such as the Welsh Development Agency, the Wales Tourist Board, ELWA or National Lottery Distributing Bodies for the same project. However, the funding of the same element of a project by more than one public source is not permissible; nor must the total public sector funding attracted to a project exceed its total cost.

### **European Community regulations**

26. Local authorities must ensure that all projects assisted under the new LRF arrangements comply with the appropriate State Aid and other relevant EU regulations.

### **National Lottery**

27. Some LRF applications will be for projects, which could be eligible to apply to one or more of the five National Lottery Distributing Bodies covering Wales. The

following principles apply to the relationship of this source of funding to potential LRF bids:

- the Government will not reduce public spending programmes to take account of awards from the lottery;
- applicants may apply for both LRF and to one or more Distributing Bodies for funding for a project. They must not accept offers from both to meet the same expenditure;
- a project can be funded through a combination of LRF and lottery funding. In such circumstances, any decision to approve an application by a Distributing Body will not automatically ensure approval of the relevant LRF bid. The two decisions will be taken separately.

28. Further information on applications for lottery funds can be obtained from the five Distributing Bodies listed at Annex C.

### **Consultation**

29. Applications to WEFO for European grant and LRF match funding for a project will need to address cross cutting issues, and consultation on these and other issues should have a wide focus. This should take place as part of the agreed consultation arrangements for working up the related European grant bid.

### **How to apply**

30. LRF match funding applications should be submitted to WEFO on a project by project basis attached to the relevant European Structural Fund bid. It is appreciated that a number of local authorities may have projects worked up and ready for submission. WEFO can accept immediate submission of these applications for joint European grant and LRF match funding.

31. An LRF match funding application form (MF1) is at Annex D and additional copies are available from the WEFO contact points shown at paragraph 32

32. Local authorities should contact the appropriate Welsh European Funding Office official below if they have any concerns over the eligibility of potential LRF match funding bids.

For Objective 1 Area:

#### **Mid & North Wales**

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*(Isle of Anglesey, Ceredigion, Conwy  
Denbighshire, Gwynedd)*

WEFO

John Davies

The Old Primary School  
Machynlleth  
SY20 8PE

Tel – 01654 704904

South West Wales

Betsan John  
*(Carmarthenshire, Neath Port Talbot,  
Pembrokeshire, Swansea)*  
Government Offices  
Picton terrace  
Carmarthen  
SA31 3BT

WEFO

Tel 01654 704923

South East Wales (*Blaenau Gwent, Bridgend,  
Caerphilly, Merthyr, Rhondda Cynon Taff, Torfaen*)

Nigel Jarvis  
WEFO

Cathays park  
Cardiff  
CF10 3NQ  
Tel 02920 823343

For Objective 2 Area:  
Cook-Jones

Sue

WEFO  
Cwm Cynon Business Park  
Mountain Ash  
CF45 4ER

Tel – 01443 471108

URBAN II (Wrexham) Area:  
Davies

John

(as above)

Other queries on the detail of how the new LRF match funding arrangements will operate in all the areas listed above, including the financial arrangements, should be addressed to Lesley Changkee/Alun Leonard, Cathays Park (address as above), tel – 02920 825467/825403.

## **Assessment Process**

33. Joint European grant and LRF match funding applications bids will go through a single assessment process by WEFO against the aims, objectives and eligible activities of the relevant Objective 1, Objective 2 or URBAN Priority and Measure. A final decision on the LRF application will be taken at the same as the related European grant bid and local authorities will be informed accordingly.

## **Awards**

34. An LRF match funding application may be scaled down and a smaller sum than that sought awarded if assessment of the project indicates that would offer better value for money. The local authority will be consulted during the appraisal process if such action is considered appropriate.

35. The approval of a grant under the LRF scheme does not override the need to obtain any other consent or approval that may be required and should not be seen as an indication that those consents or approvals would necessarily be forthcoming.

## **Management Arrangements**

### Management of LRF Indicative Allocations

36. Under the new system a local authority can submit LRF match funding applications to WEFO up to the limit of its indicative allocation in each financial year. It may be that some of these applications will not be approved, or be approved at a reduced amount, and a local authority might wish to submit additional LRF applications, whilst awaiting decisions on current applications, to try and ensure a full spend against its annual LRF indicative allocation. If they do, WEFO will be prepared to process eligible joint applications for European grant and LRF match funding: but WEFO will not approve an LRF application if, in doing so, the cumulative LRF match funding approved would breach a local authority's indicative allocation in any financial year.

37. If a local authority should spend more than its LRF indicative allocation in any financial year, it will have to meet the overspend from its own resources.

38. Payments of approved LRF capital and revenue match funding grant will be made in arrears to local authorities. Details of LRF payment procedures will be provided as part of the confirmation of any European and LRF grant approval made. LRF payments for approved projects that will be managed by not for profit making organisations will be made in advance to local authorities.

### Management of Unallocated Indicative Allocations

39. LRF indicative allocations in 2001-02 which cannot be utilised by a local authority against specific match funding project approvals by WEFO will be automatically carried forward and added to that authority's indicative allocations in

2002-03. The operation of carry forward arrangements will be reviewed early in 2002-03 with a view to determining appropriate arrangements for future years.

#### Management of Slippage Against Approved Projects

40. The automatic carry forward of any underspend against LRF indicative allocations, approved by WEFO to support specific projects, will be restricted to 20% of that local authority's total indicative allocations. Exceptionally, local authorities may apply in advance to WEFO for permission to carry forward a higher level of anticipated underspend where there is a strong proven case that this will help facilitate a key project, which would otherwise be delayed through lack of funds.

**KATHERINE HIMSWORTH**  
**Head of Local and Community Division**  
**Welsh European Funding Office**

## METHODOLOGY FOR DISTRIBUTING LRF INDICATIVE ALLOCATIONS TO LOCAL AUTHORITIES

### 1) LRF match funding resources available for distribution

#### *Transitional Arrangements*

#### a) 2001-02

The National Assembly will meet remaining forward commitments from earlier approvals made under Welsh Capital Challenge and the Local Authority Rural Scheme. These schemes end in 2001-02. The Assembly will also meet 50% of Local Regeneration Fund forward commitments for projects approved in 2000-01. The remaining resources of £24.6m will be distributed as LRF indicative allocations.

#### b) 2002-03

The National Assembly will meet 50% of the remaining Local Regeneration Fund forward commitments, which will end in 2002-03. The balance of £28.9m will be distributed as LRF indicative allocations.

#### c) 2003-04

The entire Local Regeneration Fund budget of £33.588m will be distributed as indicative allocations.

### 2) The distribution system for available resources

Within the Objective 1, Objective 2 and URBAN II Programmes there are capital and/or capital/revenue Measures that have been agreed as eligible for Local Regeneration Fund match funding support. The total European funding available under each of these measures for each Programme, as a percentage of the total amount is:

Objective 1:	88.046%
Objective 2:	11.005%
URBAN II:	0.948%

The Local Regeneration Fund match funding resources available for distribution from 2001-02 onwards will be split between Programmes on this basis to reflect the European funding available under eligible Measures.

### 3) Formula for distributing Available Resources through Indicative Allocations

#### i) Objective 1 area

The resources for distribution in the Objective 1 area will be distributed using the following formula:

0.25 x Total population in Objective 1 areas

0.15 x Population of wards that are in the top 25% of Index of Multiple Deprivation values of those in the Objective 1 areas (employment domain)

0.15 x Population of wards that are in the top 50% of Index of Multiple Deprivation values of those in the Objective 1 areas (employment domain)

0.15 x Population of wards that are in the top 25% of Index of Multiple Deprivation values of those in the Objective 1 areas (income domain)

0.15 x Population of wards that are in the top 50% of Index of Multiple Deprivation values of those in the Objective 1 areas (income domain)

0.15 x sparsity

#### ii) Objective 2 area

The Objective 2 Programme will provide transitional European funding for 6 local authorities and new funding for 3 of these authorities. A system of indicative allocations to these local authorities has already been introduced for distributing European funding, based on population figures within eligible wards that were used in the Objective 2 Single Programme Document. These indicative allocations are split between the transitional and new programmes on a percentage basis that also takes account of the total European funding available for each Programme. It has been agreed that the same system will be adopted to distribute LRF indicative allocations.

#### iii) URBAN II area

Wrexham County Borough Council will receive 0.948% of total LRF resources available for distribution each year.

### Definitions of indicators used for the Objective 1 options

#### 1. Population

The total population at 30 June 1999 estimated by the Registrar General usually resident in that authority.

#### 2. Population of electoral divisions that are in the top 25%/50% of Index of Multiple Deprivation values (income or employment domains)

The population of electoral divisions within the authority's area that have a multiple deprivation value amongst the top quarter/half of all electoral divisions. A high value indicates greater levels of deprivation. The population used for these purposes is taken from the National Health Service Administrative Registrar as the mid-year estimates of population are not available at electoral division level (Data published in the National Assembly for Wales' publication "Welsh Index of Multiple Deprivation", 2000 edition).

#### 3. Sparsity

The total number of persons usually resident in the area of the principal council who reside in wards where the result of dividing the area of the ward in hectares by the usually resident population of the ward is greater than 0.25 (1991 Population Census).

**NATIONAL LOTTERY  
DISTRIBUTING BODIES COVERING WALES**

Ms Jennifer Stewart  
Co-ordinator for Wales  
Heritage Lottery Fund (Wales)  
Companies House  
Crown Way  
Cardiff CF4 3UZ

Tel: 02920 343413

Mr Huw Jones  
Chief Executive  
The Sports Council for Wales  
Sophia Gardens  
CARDIFF CF1 9SW

Tel: 02920 397571

Mr Peter Tyndall  
Chief Executive  
Arts Council of Wales  
Museum Place  
CARDIFF CF1 3NX

Tel: 02920 376500

Mr Roy Norris  
Director  
Community Fund - Wales  
Ladywell House  
NEWTOWN S16 1JB

Tel: 01686 611700

Mr Peter Bryant  
Head of Wales Office  
New Opportunities Fund  
13th Floor  
Capital Tower  
Greyfriars Road  
Cardiff CF10 3AG

Tel: 02920 678201

**Annex B(iii)**

**Local Regeneration Fund : Match Funding Indicative Allocations**

***URBAN II: Wrexham County Borough Council***

2001-02 - £0.234m

2002-03 - £0.274m

2003-04 - £0.318m