

JESSICA PRE-CALL

- Background and Guidance Notes for Applicants -

1. BACKGROUND

JESSICA: A new way of using EU funding to promote sustainable investments and growth in urban areas.

1.1 What is JESSICA?

JESSICA stands for Joint European Support for Sustainable Investment in City Areas. This initiative is being developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank (CEB). Under new procedures, Member States are being given the option of using some of their EU Structural Funds, to make repayable investments in projects forming part of an integrated plan for sustainable urban development.

These investments, which may take the form of loans or other repayable investment, will be delivered to projects via Urban Development Funds (UDFs). It is anticipated that the provision of much needed investment finance in the urban regeneration market in Scotland will support the Scottish Government's economic recovery strategy.

1.2 What is happening in Scotland?

The Scottish Government will appoint the EIB to implement JESSICA in Scotland. The EIB will manage the JESSICA Holding Fund and report to an independent Investment Board. The Investment Board will be appointed during 2010. The Holding Fund will invest resources (up to £50 million) in UDF(s) which will be procured by the EIB through competitive tender.

The UDF must be legally independent and will be expected to act in an independent manner in making investments. The UDF can be a partnership or consortium, but the lead party (i.e. the UDF manager) will need to be registered with the Financial Services Authority in the UK, as the UDF will be making financial investments.

Bidders wishing to secure the UDF mandate will need to submit a business plan detailing how and where they intend to make investments using this funding. UDF business plans which are specific, demonstrate a clear project delivery pipeline and set out strong governance mechanisms should score

well in the evaluation. Leverage of other public or private sector funding, for example private co-investment finance, will also be strongly encouraged.

It will be for UDF managers, and not Scottish Government or EIB, to determine which projects to fund and present them as part of their business plan bids, and therefore it will be in project sponsors' interests to develop strong project propositions and make early contact with potential bidders for the role of UDF.

1.3 What projects will be eligible?

Projects must fall within the eligible areas under Priority 3 of the Lowlands and Uplands Scotland ERDF Operational Programme 2007-2013.

LUPS ERDF Priority 3 Eligible Areas

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

LUPS ERDF Priority 3 Eligibility Criteria

Projects will need to meet at least one of the following criteria:

♦ Linking urban areas of need with areas of opportunity

Support for locally based job brokerage schemes that aim to match disadvantaged individuals with employment opportunities

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 with the intention of improving skills of local people seeking to re-enter the labour market and increasing access to web based public services

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).

♦ Improving the potential capacity of urban areas to develop

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

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 of workspace will only be allowed if it forms a component part of an integrated urban development plan).

Support for conversion and adaption 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 energy production from renewable energy technologies in response to local energy needs.

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.

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).

Projects will also have to demonstrate the following characteristics:

- ♦ expenditure must be incurred by the end of 2015 at the latest;
- ♦ the project must be capable of repaying the investment from the UDF and providing a return in line with European state aid rules;

The projects receiving JESSICA funding must be part of an integrated plan for sustainable urban development. This plan should;

- ♦ promote social inclusion and the reintegration of marginalised communities in the mainstream economy;
- ♦ improve quality of life (including environment and housing);
- ♦ promote the development of new economic activities and job creation;

- ♦ focus on groups which are most in need; and
- ♦ encourage all people to participate in the planning and delivery of services

1.4 How will JESSICA be rolled out?

The roll-out process is being managed in stages:

Stage 1 – pre-call to project sponsors for project outlines (May to June 2010)

Parties responsible for projects which may be eligible for JESSICA will have the opportunity to submit outline project information ahead of a UDF procurement. This information will be submitted via ESEP Ltd, the organisation that currently administers Structural Funds on behalf of the Scottish Government.

This pre-call exercise is designed to achieve the following objectives:

- ♦ To encourage potential project sponsors to develop the level of information required to support potential inclusion in UDF business plans
- ♦ To provide information to potential UDFs on projects which exist in the market and which they may wish to include in their business plan “bid” to the EIB
- ♦ To develop awareness in the urban regeneration community – among both project sponsors and potential UDF bidders – of the JESSICA process and to encourage networking between these parties.

UDF bidders that pre-qualify will not be restricted to projects identified through the pre-call exercise when formulating their business plans. As a result there is obviously no assurance that outline submissions will even be considered by UDF bidders; however it is anticipated that the collated set of project outlines will form a useful source of information for those UDF bidders that choose to use it.

Stage 2 – Call for Expressions of Interest for a UDF (estimated timescale June to October 2010)

The EIB will run the procurement process for a UDF in Scotland. The procurement notice will be issued in the OJEU. The procurement may be a two stage process; pre-qualification followed by the submission of a business plan. It is expected that UDF bidders will have at least six weeks to prepare and submit a business plan to the EIB. It will therefore be crucial that well developed project propositions are available at the start of this process, as it will be difficult for UDF bidders to develop projects to the required stage in this relatively short procurement period.

Stage 3 – Conclusion of Operational Agreement between EIB and UDF (October to December 2010)

Following selection of a preferred UDF bidder, the EIB will proceed to negotiating and concluding an Operational Agreement.

Stage 4 – UDF making initial investments (2011 onwards)

Upon concluding the Operational Agreement, the UDF will be able to start investing in individual eligible projects.

2. GUIDANCE NOTES FOR APPLICANTS

2.1 Financial Details

All figures should be rounded to the nearest £1,000.

2.2 Local Authority Area

The JESSICA Fund has received significant funding from the European Regional Development Fund under Priority 3, Urban Regeneration of the Lowlands and Uplands Scotland Programme. This Priority is spatially targeted and accordingly JESSICA investments can only be made in projects located in the 13 eligible local authority areas of;

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

Ministers have agreed that these areas will remain eligible for the remainder of the programming period. Scottish Government 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.

You should tick only one box.

2.3 ERDF Priority 3 Eligibility Criteria

Investment proposals/projects must also fit with one or more of the eligibility criteria for ERDF Priority 3 to qualify for support from the JESSICA Fund. These can be found in the preceding Background note under “*what projects will be eligible*”. For the purposes of this exercise please indicate the principal criterion.

2.4 Project Beneficiaries And Outputs

Please indicate the intended beneficiaries of the proposed investment. For example this could be local businesses (SMEs), local residents or commuters. In the limited space available please confine your response to primary beneficiaries.

As regards forecast outcomes you should again limit your response to the primary outputs such as *area of business space created and number of transport hub projects supported*. For reference please see the attached list of indicative targets and forecast outcomes.

2.5 Project Description

Please provide a brief project description of not more than 150 words, paying particular attention to the purpose of the project, the physical works, their role in regeneration, intended regeneration outcomes, and the potential for revenue generation. It is important that you encapsulate the key features, objectives and deliverables of your project in the very limited space available. Make sure that you first and foremost describe what the project is in physical terms and what it will actually provide.

2.6 Indicative Costs

♦ Forecast Total Cost

This is the total cost of the project including such costs as feasibility studies and other professional fees.

♦ Forecast Revenue

Please provide details of the nature of anticipated revenue and any other income with estimated values.

2.7 JESSICA Investment Requested

Please indicate the estimated amount of investment required from the JESSICA Fund. No upper or lower limits have been set at this time as we have no way of knowing what the investment strategy of the UDF Fund Manager will be. Any decision, particularly with regard to a minimum investment level will rest with the UDF Fund Manager once they are appointed. However, for the purposes of this exercise and taking account of the likely level of due diligence and transaction costs, we would advise that investment requests should be in excess of £1,000,000.

♦ Type of Investment

The UDF may issue a range of investment products although the expectation is for loans with capitalised interest. However, other possibilities may include guarantees or equity or potentially a combination of loan and equity. Please provide an indication of your preferred product.

2.8 Other Funders

You should identify funding from all sources including the lead applicant. Please also specify the type or nature of the funding such as grant, loan or equity and indicate the status of the funding. That is, is this funding confirmed or still being negotiated.

2.9 Expected Timescale

It is important to bear in mind that under the ERDF eligibility rules, all expenditure must be incurred by December 2015. The projected end date should therefore be the date beyond physical completion, when it is expected that all costs, including retentions, will have been incurred.

2.10 Anticipated Repayments

Please provide an indication of when you expect to be in a position to commence repayment and the term over which repayment will extend. While the physical works should be completed by December 2015, the repayment schedule may extend beyond that date. Once appointed, under competitive tender, it will be for the successful UDF bidder to set the level of interest. This is likely to be below commercial market rates but compliant with State Aid regulations.

2.11 Anticipated Investment Return

This is simply an assessment of the potential of the overall project development to generate a return on investment. This should be expressed as a percentage or a range such as 3-5%.

2.12 Purpose Of JESSICA Investment

You should explain the purpose and need for the JESSICA loan. For example will the loan meet a funding shortfall and/or help leverage other funding.

2.13 Commercial Lending

In view of the intended role of JESSICA investing, it is important to gain an understanding of the level or prospects for commercial debt. Also, where commercial lending has been sought and turned down it would be helpful to have reasons for rejection.

2.14 Complementary ERDF Grant

In recognising the potential of a JESSICA fund to support an integrated approach to regeneration it is likely that some activity associated with urban development plans will continue to require ERDF grant support. The LUPS Programme Monitoring Committee at its meeting in October 2009 agreed to set aside an allocation of £10m ERDF grant for the purposes of directing additional ERDF grant to support those elements of an IUDP that could not be supported by a JESSICA Fund but which are essential to help secure and strengthen the JESSICA intervention. This will be subject to a separate but parallel application process. Accordingly, it would be helpful to have an indication of the potential requirement for ERDF grant, describing those discrete activities, their importance and role in supporting and complementing the overall achievement of the integrated urban development plan and specifically their critical role in leveraging the JESSICA investment.

2.15 Integrated Urban Development Plan (IUDP)

Project proposals must be able to demonstrate that they form a component part of an integrated plan for sustainable urban development. This is a condition of ERDF eligibility in respect of support for training/learning and e-skills centres, workspace developments and the rehabilitation and servicing of brownfield and gap sites.

Integrated Urban Development Plans will be influenced by the National Planning Framework 2 (NFP2). The NFP2 is a strategic plan setting out an integrated social, economic and environmental framework for the future development of Scotland, looking forward 15-20 years. It is Scottish

Government's response to European guidance on spatial planning and forms the link to European Structural Funds.

2.16 Stage Of Development

This is simply an indication of the state of readiness of the project. Reference should be made to the status of planning, financing and procurement and any other relevant compliance areas.

2.17 Additionality/Added Value

You should aim to describe the impact of the project on the level, nature and quality of key services to the local community, whether in employment, training/learning terms or other local service provision.

2.18 Planning Status

You should indicate what if any outstanding planning consents remain to be achieved and the likely timescales. Also, have all environmental impacts and regulatory requirements been fully considered and resolved. For further information:

<http://www.scotland.gov.uk/Topics/Built-Environment/planning/National-Planning-Policy/npf/NPF2-SEAGuide>

2.19 State Aid

In view of the scale and nature of certain prospective regeneration activities, there may be State Aid implications, particularly where investments involve business property developments. Please therefore identify any State Aid implications and indicate what action has been undertaken to resolve the issue or if there is an existing notification in place please provide the reference. For further information:

www.stateaidscotland.gov.uk

2.20 Authorised Signatory

Whilst completion of this form does not constitute a legally binding agreement or commitment on the part of the organisation making application, it should nonetheless be signed by an individual within the organisation of sufficient seniority and delegated authority.