



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

JESSICA FUND FOR SCOTLAND – INVESTMENT STRATEGY

1. Purpose

- 1.1** To seek the Committee's endorsement of the JESSICA Investment Strategy and to advise members of the latest developments in establishing a JESSICA Fund for Scotland.

2. Introduction to the Investment Strategy

- 2.1** It is a regulatory requirement (EC 1828/2006, Art 43) that all ERDF supported financial engineering investments, including holding funds, have in place a funding agreement between the Member State or Managing Authority and the mandated representative of the financial engineering instrument. Also, the funding agreement must include an investment strategy and planning framework.
- 2.2** The Committee will recall that at its meeting on 28 October 2009 it was advised on progress, in particular that the Memorandum of Understanding with the European Investment Bank (EIB) had been signed thus allowing progress to be made in developing and agreeing the detail of the funding agreement. Detailed discussions between the EIB and Scottish Government have now been concluded and it is expected the funding agreement will be signed at a formal signing ceremony in March by Scottish Ministers and high representatives of the EIB.
- 2.3** The Funding Agreement is a substantial legal document which essentially sets out the role of the EIB as Holding Fund Manager; the management structures governing the operation and oversight of the investment approach and strategy of the Holding Fund, including the Urban Development Funds (UDFs); monitoring and reporting arrangements and winding up provisions of the funds.
- 2.4** The investment strategy for JESSICA in Scotland is referred to at Clause 7 of the Funding Agreement with the full detail attached as an annexe (Appendix A, Investment Strategy and Planning). This is in near final draft stage and will be finalised within 90 days of the Funding Agreement being signed. This is now attached as Appendix 1 for consideration by the Committee. Also, and importantly there is provision within Clause 7 of the Funding Agreement for the Managing Authority to revise the investment strategy at a future date.
- 2.5** The investment strategy establishes the basis on which the Holding Fund Manager will appraise investment proposals/project applications and make recommendations to the Investment Board. The Holding Fund Manager and the Investment Board, in making and considering project recommendations, may not be bound by the sole consideration of maximising financial returns but will rather seek to achieve economic and social benefits from the Urban Projects that will be supported.

2.6 Key components of the JESSICA investment strategy include;

- Scottish Government Economic Strategy including the five Strategic Priorities of;
 - Learning, Skills and Well-being
 - Supportive Business Environment
 - Infrastructure Development and Place
 - Effective Government
 - Equity
- Scottish Government Economic Recovery Plan
- Lowlands and Uplands Scotland Programme Strategy

The underpinning theme of all these component strategies is sustaining long term economic growth within a sustainable development framework. Also, and fundamentally, the investment strategy will be delivered through investment in Urban Projects that form part of an "integrated plan for sustainable urban development". These plans will be influenced and informed by the National Planning Framework 2 (NPF2). NPF2 is the national strategic plan which sets out an integrated social, economic and environmental framework for the future development of Scotland.

2.7 There are a number of well developed urban regeneration schemes in Scotland that have already developed or are in the process of developing integrated urban development plans. The majority of these are being delivered through Urban Regeneration Companies (URCs). There are six URCs in Scotland, five of which are in the eligible LUPS Priority 3 areas. Of these, Clyde Gateway is Scotland's national strategic regeneration priority project.

2.8 The JESSICA Holding Fund strategy assumes that the Holding Fund will invest in and through one or two Urban Development Funds. Initially, a single UDF will be established through an open procurement process to allow Urban Projects to come forward from the 13 local authority areas eligible for ERDF Priority 3 funding. In time, and depending on additional funding becoming available, thematic UDFs might be established, for example to support the Climate Change agenda by investing in energy efficiency projects and renewable energy projects and infrastructure.

2.9 Previous reports to Committee have indicated the possibility of involving support from the Big Lottery Fund (Scotland) and these discussions have now progressed to the point where BIG is looking to invest alongside JESSICA interventions, where regeneration proposals comprise project activities which align with the objectives and outcomes of BIG. This additional support is welcome and has the potential to contribute significantly to the transformational change that we aim to achieve in urban communities.

2.10 The investment strategy also includes an indicative list of output targets which may be generated from the Holding Fund investments through the UDFs in Urban Projects. These are based on the LUPS ERDF Programme, Priority 3 indicators and targets. However, the proportionate target values are indicative and aspirational and any underachievement will not necessarily reflect on the performance of the Holding Fund and the UDFs.

2.11 Section 5 of the investment strategy provides an indicative timetable for establishing all the necessary processes, systems and structures to allow investments to be made by the UDF(s). This is envisaged in early 2011.

2.12 This timetable also envisages a pre-call or expression of interest from prospective Urban Project promoters in the first quarter of 2010. Planning is underway to launch a pre-call by mid March 2010, followed by an information seminar involving the participation of the Commission, DG Regio and the EIB before the end of March.

3. Other Developments

3.1 Following the agreement and formal signing of the MoU to appoint the EIB as Holding Fund Manager, the EIB has now appointed Steven Henderson as Country Holding Fund Manager with effect from 1 April 2010. Steven was formerly an Assistant Director at Ernst and Young where he specialised in urban regeneration strategy and financial planning. He is a chartered accountant and has extensive experience of major regeneration initiatives, including many of the Scottish Urban Regeneration Companies. He will be based in Glasgow.

4. Recommendations

4.1 The Committee is invited to;

4.1.1 consider and agree the JESSICA investment strategy provided as Appendix 1

4.1.2 note that the investment strategy, as an annexe to the Funding Agreement can be modified by the Managing Authority in future

4.1.3 note the appointment of the EIB Holding Fund Country Manager who will be based in Glasgow.

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