



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

### UPDATE ON ERDF PRIORITY 3 AND JESSICA

#### 1. Purpose

- 1.1 To update the Committee on significant progress on the development of a JESSICA Holding Fund for Scotland.

#### 2. Memorandum of Understanding (MOU)

- 2.1 The MOU was signed by Diane McLafferty, Scottish Government's Deputy Director for Regeneration and Frank Lee of the European Investment Bank on 30 September in Glasgow. The signing of the MOU is significant as it allows us to progress the detailed discussions on the funding agreement that will set out how the EIB, as Holding Fund Manager, will operate JESSICA in Scotland.

#### 3. Capitalising the Holding Fund

- 3.1 We propose that the fund will be capitalised in tranches and aim to make the first payment of £30 million to the JESSICA Holding Fund (including £15 million ERDF) immediately after ministers sign the funding agreement. We have set a target of signing this document by the end of December 2009 with a second payment being made by the end of March 2010, this will include the balance of the ERDF. Although the target for signing the funding agreement may yet prove to be overly ambitious we are keen to maintain momentum so that we can launch a call for proposals as early as possible in 2010.
- 3.2 The initial match funding contributions to the Holding Fund will be in cash, drawn from existing regeneration budgets. We aim to provide match for the entire £25 million of ERDF that has already been ring fenced by the Committee and ideally that contribution will also be in cash. We will however, we will continue to explore if any of the Scottish Enterprise property portfolio could be used as temporary match funding in case we are unable to secure the full contribution in cash. Property assets would need to be replaced with cash before Programme closure in any event but this may still prove to be the only way to draw down the full ERDF allocation. We will continue to develop this as a fall-back position which allows us to replace property and land assets from budget allocations in the next spending review period.
- 3.3 The Committee will also wish to note that we have had further positive discussions with colleagues from BIG Lottery Fund. We have explored options for delivering the

funding that they will use to support people and communities alongside a JESSICA Holding Fund in order to increase the impact of both interventions. Apart from the obvious strategic benefits of closely aligning the funding streams we may also be able to realise savings by sharing the costs associated with fund management. Discussions will continue to try to develop an agreed investment strategy and officials from Big Lottery will attend the JESSICA Steering Group meetings.

#### **4. Priority 3 Funding in Round 3**

**4.1** The Committee will also wish to note that demand for ERDF funding for urban regeneration in Round 3 has increased dramatically. We currently have £71 million ERDF available in Priority 3 and initial proposals were submitted requesting ERDF intervention to a value of £128 million. This value of the bids reduced to £ 89.6 million after initial screening by the Managing Authority and IAB and reduced further to £55.3 million at the close of Round 3 after sponsors considered the detailed feedback offered by ESEP.

**4.2** This overbid was partly caused by project sponsors anticipating the Commission's approval of the widened eligibility scope proposed for Priority 3. Although this was not unexpected, and is generally welcomed, we also have examples of project sponsors putting forward for grant funding integrated urban development plans and proposals with the potential for considerable revenue generation that appear more suitable for funding through a JESSICA funding mechanism. Although this twin tracking was inevitable, at least until sponsors could see that we had more definite proposals for taking forward JESSICA, it does introduce a risk that other project sponsors are disadvantaged because they decided to wait on the outcome of our JESSICA work before putting forward their large scale regeneration plans.

**4.3** In order to ensure that we treat all sponsors fairly and also to make the best use of the funding available to us, the Managing Authority propose to defer a decision on JESSICA type projects that have been submitted for grant funding in Round 3. We will then signpost sponsors to a later call for proposals that will be launched by the JESSICA Holding Fund. This will allow us to ensure that integrated regeneration and revenue generating projects are compared against each other rather than against more traditional ERDF style interventions that are dependant on traditional grant funding. This also allows us to build in a safeguard that ensures that we retain the focus on encouraging an integrated approach to funding regeneration should we be unable to deliver on JESSICA.

#### **5. Additional Grant Support**

**5.1** It was always envisaged that grant funding would be needed to sit alongside those funds that are invested through a JESSICA Holding Fund. This ring fenced amount would allow the ERDF Priority 3 Advisory Group and Managing Authority to direct additional ERDF grant support to those elements of an integrated urban development plan that could not be supported by a JESSICA fund or to other ERDF measures that would complement and/or help imbed the JESSICA intervention. It is

proposed that of the order of £10m from the ERDF Priority 3 allocation be set aside for this purpose.

#### **4. Recommendations**

##### **4.1 The Committee is invited to:**

- 4.1.1 note the progress made to date
- 4.1.2 agree to allow the Managing Authority to defer decisions on grant support for JESSICA type interventions
- 4.1.3 agree to ring fence a further £10 million ERDF to provide supplementary enabling grant support to JESSICA interventions.

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**October 2009**