



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

JESSICA FUND

1. Purpose

- 1.1 To update the Committee on developments around the Joint European Support for Sustainable Investment in City Areas (JESSICA) and the potential impacts on the delivery of ERDF in Scotland.

2. Background

- 2.1 Papers issued in March and July 2008 have kept the Committee up-to-date with the development of this initiative. The July paper suggested a process that would allow the engagement with partners to examine how the JESSICA funding mechanism could operate in Scotland. Copies of the earlier papers are attached for ease of reference.
- 2.2 The Committee will wish to note that we have adopted a more cautious approach than initially envisaged. The technical issues surrounding the operation of JESSICA have taken longer than anticipated to clarify and we have not yet had the opportunity to consider the outcome of the evaluation studies carried out in Wales and London. There has also been some uncertainty around the interpretation of some of the regulations governing the delivery of JESSICA.
- 2.3 One positive consequence of this delay is that the Managing Authority has been able to gauge the level of uptake in Priority 3 (Urban Development) after the first stage of Round 2 of the ERDF Programme. The number and nature of projects coming forward suggest that we may not attract demand of sufficient quality to fully utilise the £70m allocated, unless we engage further with partners on how to widen the eligibility criteria of the Priority and/or explore an alternative delivery mechanism to that of traditional grant funding.

3. Next Steps

- 3.1 Notwithstanding the points noted above, the Managing Authority remains of the view that JESSICA has the potential to have a major impact on the delivery of the LUPS ERDF Programme and, assuming that the rules are sensibly applied, that it could leave a lasting legacy in the form of a vehicle to fund urban regeneration after the end of the Programme period. We would ask the Committee, therefore, to agree in principle that we continue to explore the opportunities offered by JESSICA. To supplement Committee members' understanding of JESSICA, we have asked DG Regio to provide further background to the JESSICA principle at the Programme Monitoring Committee meeting on 29 October 2008.

- 3.2** The Managing Authority is keen to build on the engagement of partners that is already a key feature of the Structural Funds Programmes in Scotland and to learn lessons from the early rounds of the programming period. Assuming that the Committee is content that the Managing Authority continues to explore the JESSICA principle, we propose to establish a JESSICA Steering Group that will be chaired by the Managing Authority and report to the Programme Monitoring Committee.
- 3.3** The membership of the Steering Group should be comprised of representatives of stakeholder organisations directly engaged with the delivery of the integrated regeneration projects envisaged in the JESSICA model e.g. representatives of Local Authorities, Scottish Enterprise and Scottish Government regeneration policy officials. We would welcome the Committee's views on other sectors that should be included and the umbrella groups that we might approach in order to ensure that the membership of the Group is fully representative. We also recognise, however, that there is merit in keeping the Group relatively small, so that it can focus on the specific issues.
- 3.4** The Steering Group's primary purpose will be to bring recommendations to the next Programme Monitoring Committee (in March 2009) on the suitability of JESSICA to delivery regeneration outcomes in Scotland and on appropriate delivery arrangements. Should the Group decide to make a positive recommendation, it is the Managing Authority's view that this is likely to result in the effective closure of Priority 3 for any new business outside the JESSICA funding mechanism from Round 3 onwards.

4. Recommendations

- 4.1** The Committee is invited to:
- 4.1.1 Note the delays in the development of a JESSICA proposal.
 - 4.1.2 Agree to the formation of a Steering Group to consider the possible operation of JESSICA in Scotland.
 - 4.1.3 Note the likely impact of a positive recommendation for JESSICA on the availability of funding under Priority 3 ERDF.

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

JESSICA REPORT BY SCOTTISH GOVERNMENT

1. Purpose

- 1.1 To seek the Committees agreement to a proposed feasibility study intended to test if the JESSICA funding mechanism could be utilised by the LUPS ERDF Programme.

2. Background

- 2.1 Joint European Support for Sustainable Investment in City Areas (JESSICA), is an initiative of the Commission in co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), intended to promote sustainable investment, growth and jobs, in Europe's urban areas.

- 2.2 The need to do more in the field of sustainable urban development was raised during consultations on the draft Community Strategic Guidelines adopted by the Commission in July 2005. In addition, the report by European Parliament (Jean Marie Beaupuy) of September 2005, "The urban dimension in the context of enlargement" called on 'the Commission to reinforce actions for urban agglomerations and areas'. At the high-level conference involving the Presidency, the regions and financial institutions in Brussels on 24 November 2005 on the theme of Financing Growth and Cohesion in the enlarged EU the outline of a JESSICA-type co-operation agreement between the Commission and the international financial institutions was presented and received widespread support. The Informal Meeting of Ministers in Bristol on 6-7 December 2005 on sustainable communities called for a reflection on 'how to enhance the impact of EIB loans'.

- 2.3 JESSICA will offer the managing authorities the possibility to take advantage of outside expertise and to have greater access to loan capital for the purpose of promoting urban development. Where a managing authority participates under the JESSICA framework, it would contribute resources from the programme, while public sector sponsors, the EIB, other international financial institutions, private banks and investors would contribute additional loan or equity capital as appropriate. Since projects will not be supported through grants, programme contributions to urban development funds will be revolving and help to enhance the sustainability of the investment effort. This could leave a lasting legacy from the current programmes to fund urban development efforts within the programme area after 2013. The programme contributions will be used to finance loans provided by the urban development funds to the final beneficiaries, backed by guarantee schemes established by the funds and the participating banks themselves. No State guarantee for these loans is involved and they would not aggravate public finance and debt.



3. Options

3.1 For two possible approaches, the basic steps leading from the contribution from the programme to support for a project on the ground are as follows:

3.2 Option 1 - Direct relationship with Urban Development Funds.

Managing authorities deciding to use the JESSICA framework will launch one or more **calls for expression of interest**, addressed to urban development funds and the resulting submissions would then be appraised in the usual way. Relevant criteria in this context would include the investments and projects to be targeted, the terms and conditions under which they would be financed, ownership and contributions of co-financing partners of the fund, the justification and intended utilization of the ERDF contribution, the winding up provisions of the fund, etc.

As a result of the appraisal, a **funding agreement** would be signed between the managing or other authority and the selected urban development fund(s), specifying the terms and conditions, as well as the targeted investments for allocating resources from operational programmes to them.

Urban development funds will select and support Public Private Partnerships (PPPs) and other urban projects, providing loans, equity or guarantees, but not grants. It would be possible for a given project to be supported partly by the non-grant urban development funds, and partly by public grants (including from operational programmes). This could include complimentary ESF interventions to allow local people to make the most of the opportunities that the urban development efforts would present. However ESF will not form part of the JESSICA fund. Other private banks or investors may also participate. Project promoters could be public, municipal or private sector enterprises, or joint enterprises involving these actors in any possible combination between them. The funds will monitor implementation of projects by final beneficiaries. They will report to the managing authorities on their activities (selection of projects, implementation by final beneficiaries).

Option 2 - Organising JESSICA through Holding Funds

Managing authorities have the option to organise financial engineering for sustainable urban development through the intermediary of holding funds. Holding funds are those investing in more than one urban development fund, providing them with equity, loans or guarantees. In such cases, the authorities will have the option of awarding a grant to the EIB entrusting it with the holding fund tasks.

A funding agreement would be signed between the managing authority and the holding fund, specifying the terms, conditions, targeted investments, etc. Holding funds could invest in more than one urban development fund, providing them with equity, loans or guarantees. Urban development funds are funds investing directly in public-private partnerships PPPs and other projects in the urban context. Projects approved by the funds for support will be financed only through equity or loans, and not through grants. It is envisaged that a pre-condition would be that projects would be supported only in the context of an integrated plan for sustainable urban



development.

Urban development funds will be co-managed by professionals of the banking and private sector, who should contribute financial, technical and managerial expertise and flexibility to the management of projects co-financed by the European Regional Development Fund.

4. Engagement So Far

4.1 The MA has been aware of the development of the JESSICA initiative and has attended several information meetings with the Commission and the EIB. Clearly as the Commission concentrated resources on the approval of new programmes it was difficult to take a firm view on the relevance and suitability of the JESSICA initiative to Scotland. However, as the Commission's thinking around JESSICA has developed the MA can see real benefit in looking closely at the potential benefits that could be derived from participation. The Commission have offered to fund feasibility studies that will scope out the potential for a JESSICA initiative in Scotland.

4.2 As well as the potential legacy benefits the relatively low level of activity in Priority 3 of the ERDF Programme also makes considering this option in some detail an attractive proposition.

5. Recommendations

5.1 The Committee is invited to:

5.1.1 note the development of the JESSICA initiative

5.1.2 agree to charge the MA with the responsibility to enter into discussion with the Commission and EIB leading to a feasibility study that will scope the potential use and impact of a JESSICA type initiative in the LUPS programme area

March 2008



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

WRITTEN PROCEDURE

JESSICA – FURTHER DEVELOPMENTS

1. Purpose

- 1.1 To update the Committee on recent developments on the potential use of a JESSICA (Joint European Support for Sustainable Investment in City Areas) funding mechanism in the LUPS programme area. Also to seek the Committees agreement to hold an initial call for expressions of interest which will further explore the potential use and scope of a JESSICA funding mechanism.

2. Background

- 2.1 The Programme Monitoring Committee (PMC) on 19 March 2008 agreed to allow the Managing Authority to explore further the possibilities offered by the JESSICA initiative to fund urban development in Scotland. Members will recall that the main feature of the JESSICA model is that it provides an alternative to the traditional ERDF grant funding for individual projects and instead offers a combination of loans and financial guarantees to part fund integrated urban development plans. After discussion members decided that any feasibility study should cover how JESSICA could operate at city, URC and national level.
- 2.2 For ease of reference a copy of the paper presented to the Committee is attached (Annex 1). The major advantage of the JESSICA system is that it allows the creation of a revolving fund that would continue financing urban development plans after the end of the current programming period. As this is likely to be the last Programme period through which Scotland will receive significant Structural Fund support a revolving fund would serve as a tangible legacy for the 2007-2013 Programmes.

3. Engagement with the European Commission and European Investment Bank

- 3.1 Following further dialogue with the European Commission and the European Investment Bank (EIB) it is clear that both partners are concerned about funding a general study on how JESSICA would operate in Scotland. Such generic studies are expensive and do not provide the evidence needed to take forward any solid proposals. In order to render JESSICA operational quickly it would be better to focus resources on assessing and carrying forward more specific plans. During these discussions the Managing Authority was aware that it had to fulfill the mandate given to them by the PMC to explore the options for JESSICA operating at the 3 levels mentioned at 2.1.



3.2 After discussion the Managing Authority agreed to raise with the Committee the idea of running a call for applications initially based around expressions of interest. The call for expressions of interest will be limited to Local Authorities (eligible under ERDF P3), Urban Regeneration Companies and National Bodies (e.g. Scottish Government Directorates, who have responsibility for regeneration policy, and Scottish Enterprise). To support this process the EIB have agreed to attend information seminars in Scotland to allow interested parties to raise questions or issues. These Information Seminars could be held during September or October 2008.

3.3 The Managing Authority proposes that the existing scoring and appraisal framework could be adapted to support this funding call. However, an initial sift of applications will be necessary to screen out proposals that fail to show evidence of an integrated urban development plan, necessary scale and implementation capacity or confirmation on the availability of co-finance. The MA will provide an update to the PMC at the meeting in October 2008. Once the initial sifting process is complete, project sponsors will be invited to put in a more detailed submission. It is proposed that those more detailed plans are considered by an Advisory Group to be drawn largely from the existing ERDF Priority 3 pool of Advisory Group members.

If the committee is comfortable with this proposal, the EIB have intimated that they will consider appointing consultants to act as expert advisors to the Managing Authority and any Advisory Groups that we decide to form. These advisors could assist in the initial sifting process, designing appropriate implementing mechanism, steering the application process and appraising the full applications. Annex 2 to this paper sets out diagrammatically the proposed stages with indicative dates.

4. Recommendations

4.1 The Committee is invited to:

4.1.1 note the developments on the potential use of a JESSICA funding mechanism within the LUPS Programme; and

4.1.2 agree to charge the Managing Authority with the responsibility to hold a call for expressions of interest which will further explore the potential use and impact of a JESSICA type initiative in the LUPS programme area.

July 2008