UPDATE ON JESSICA (Joint European Support for sustainable investment in City areas)

1. The External Affairs Committee held on 18/05/2010 has requested an update on the progress of the JESSICA Financial Engineering Instrument.

2. JESSICA is a financial engineering instrument, the use of which is established by the European Commission in the Structural Funds Regulations 2007-2013.

3. Following the completion of the King Sturge scoping study in September 2008 it was concluded that there was evidence that a JESSICA initiative could make a significant contribution to enabling regeneration projects where private sector intervention on its own was not realistic, especially in the current climate, and where grant funding would not represent the optimum value for money for the public sector. The study proposed the setting up of an all-Wales JESSICA fund.

4. A phased approach has been adopted where the initial fund structure is wholly public using ERDF grant and WAG resources only. This will enable the fund to establish itself, gain credibility and position itself for potential further investment from institutional investors when the economic environment improves. Second phase is targeted to increase the funding through private equity.

5. An Urban development Fund (UDF) has been established by way of a limited liability partnership (“LLP”) known as the Regeneration Investment Fund for Wales (RIFW), with a minimum anticipated life of 12 years. The Fund is governed by a Management Board, which derives its powers from the LLP Members Agreement. The Management Board consists of 2 WAG representatives, a representative from WLGA and two members appointed by the Deputy Minister Housing and Regeneration following a public appointments advertisement and selection procedure.

6. The total UDF is £55m and the European funded element within this is £40.4m, made up of £25m ERDF grant and £15.4m WAG cash and assets as match funding. The remaining £14.6m consists of additional WAG cash and assets are not tied to the European funded element, delivering flexibility for the UDF to make investments in regeneration actions that would be ineligible for ERDF. Figure 1 below shows the UDF’s structure and funding package. The ERDF grant was paid and WAG Assets were transferred into the Fund in March 2010.

7. The Fund and Investment Managers are Amber Infrastructure as Fund Manager and Lambert Smith Hampton (LSH) as the Investment Manager. Both were appointed following an OJEU open procurement process. Amber is a leading sponsor and manager of social and economic infrastructure projects, while LSH is a national commercial property consultancy with 27 offices across the UK, including Cardiff and Swansea. An announcement launching the operational
phase was made by the Deputy Minister for Housing and Regeneration prior to the Regeneration Summit being held on the on 20 October 2010.

8. The fund manager is producing, for publication this spring, detailed guidance on the types of projects that will be eligible and the application process and evaluation criteria. Investment decisions will be made by the Fund manager within the context of an annual business plan approved by the RIFW management Board and in compliance with the terms of the ERDF funding. The fund will seek project finance opportunities across the whole of Wales. The flexibility to invest some of the fund in non EFDF eligible actions also means it will not be limited to the Convergence areas.

9. The fund is open for business and significant interest has already been shown by project sponsors. The investment managers are currently reviewing a number of initial projects with the potential for RIFW loan finance in the region of £20-40m. This is before any significant marketing activity has been undertaken. The first loan investments are expected to be made during 2011.

10. The capacity of the fund to deliver equity investments has been identified as fundamental to the success of JESSICA instruments across Europe. Key to enabling this is the approach to managing potential State Aid, ensuring that it is compatible with the Treaty. To pave the way a UK wide State Aid pre-notification setting out a rationale for a Fair Rate of Return methodology has been prepared by Assembly Government in collaboration with the Department for Business Innovation and Skills (BIS) and in consultation with DG Competition. As a result it has now been agreed that Wales and North-West England will proceed with individual notifications. Consequently full state aid clearance is targeted for autumn 2011. This would pave the way for the fund to undertake equity investments alongside their existing scope to provide loans and guarantees.

11. The Fund is the second UDF to be established in the UK (East Midlands being the first) and the third in Europe. Other parts of the UK have established Holding Funds with European Investment bank but have yet to launch the UDF investment vehicles. The RIFW is included as a case study in the forthcoming JESSICA “Handbooks” and at DG Regio and the European Investment Bank’s request, WEFO and the Fund Managers delivered presentations at the JESSICA and JEREMIE conference 29 and 20 November. The Commission sees Wales as being at the forefront on implementation of Financial Engineering Instruments and in particular the JESSICA initiative.
Figure 1 Overview of fund structure and operation

WAG Cash £9.4m

WAG Assets £20.6m (Converted to cash over the life of the UDF and invested in schemes)

ERDF £25m

Regeneration Investment Fund for Wales LLP (the UDF)
The fund and investment managers manage the fund (asset realisation and identification of schemes) and make recommendations on investment decisions to the Management Board

Schemes Cycle 1
Up to £55m invested, of which a minimum of £40.4m must be ERDF eligible

Returns on Investment from Cycle 1

Schemes Cycles 2, 3, 4 etc
Returns from tranche 1 and subsequent tranches invested in urban development schemes – no ERDF eligibility restrictions

Returns on Investment from Cycles 2 onwards recycled into further urban development schemes through the UDF