



# Scoping the use of JESSICA in London.

## *Final Report – September 2008*

*This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union*

*Note to reader: Certain commercially sensitive data has been removed from this report*

**Deloitte.**



European Investment Bank  
100, boulevard Konrad Adenauer  
L-2950 Luxembourg

Deloitte MCS Ltd  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

[www.deloitte.co.uk](http://www.deloitte.co.uk)

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Dear Sirs

**JESSICA**

We are pleased to set out the findings of our study on the use of JESSICA in London. It provides an overview of the Structural Funds, outlines the case for using JESSICA in London, explores some of the issues faced in delivering JESSICA and considers some potential implications.

Our work has been limited by the time available and the scope of our work, and the financial estimates are based on high level assumptions that have not been tested and should not be relied upon. In the circumstances, we may not be aware of all facts or information that you may regard as relevant. Furthermore we have not corroborated the information received and, to that extent, the information may not be reliable. We accept no responsibility for matters not covered by the Report or omitted due to the limited nature of our research. At your request we have removed specific details of certain project previously mentioned in earlier drafts, to protect their commercial sensitivities.

We hope this is a useful starting point, and look forward to discussing this with you in due course.

Yours faithfully

Deloitte MCS Ltd

# Executive Summary

## (1) Indicative Need for JESSICA in London

- JESSICA is a strategically important delivery mechanism for Priority 3 (sustainable places for businesses) in the London ERDF Operational Programme. JESSICA provides a resource for UDFs to ensure regeneration activity is delivered in the most sustainable way and helps London move towards a low-carbon economy.
- London requires JESSICA support to make this step change. It will address environmental issues, especially mitigation and adaptation to climate change, whilst regenerating areas of deprivation.
- There are imperfect market conditions that make these intervention projects prohibitively risky investments for the private sector. Risks include, uncertain demand, new / emerging technology, long timescales for return and a broad / fragmented area of intervention / impact.

## (2) Appropriate Activities for JESSICA in London

- Key requirements of potential investment opportunities have been identified and a long-list of 16 projects evaluated against these to determine their suitability for JESSICA funding. A short-list of five investment opportunities were developed as high-level case studies. Decentralised Energy has been identified as an area suitable for JESSICA funding and Barking Power Station as the most appropriate project to be taken forward as a pilot.
- London's economic development community are keen to embrace JESSICA. However more information is needed before a full appraisal can be completed on a number of the identified projects being considered for JESSICA funding.
- JESSICA's focus is to move the market for investing in environmental sector forward by early project 'de-risking' and demonstrating investment feasibility.

## (3) Approach to Deploying JESSICA

- JESSICA investments are made in support of projects that, due to demand / technical risks or a long timescale for returns, are being incapable of being supported by conventional commercial financing.
- JESSICA should not be used as substitute grant funding for those projects that do not generate returns.
- The "JESSICA Structure" - JESSICA funds initially placed into a Holding Fund that focuses on funding essential project development work in order to develop, appraise, and then deploy funds into UDFs where delivery occurs
- The proposed structure adopts a multi UDF investment approach reflecting the varied nature of investment opportunity. Potential early UDF investments opportunities exist on the Barking Power Station CHP and associated local projects.
- Suitable projects do exist that meet the objectives of local national and EU economic development policy in Environmental Sustainability – however, additional work is required to develop these into credible investment opportunities.
- Of the above investment opportunities, most are not displaying strong commercial returns, which suggests there is a role for 'public sector investment', in the form of JESSICA to share risk stimulate private investment
- The structure proposed in this document sets out to addresses this market imperfections to investing in emerging environmental technologies and those projects displaying a long lead-time to generating returns,
- A JESSICA Holding Fund should be set up to develop a series of UDF investment opportunities aligned to P3 in the ERDF Operational Programme.

## (4) Study Findings

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# Introduction

**This evaluation study was commissioned by the European Investment Bank (EIB) to establish a rationale for ERDF to accelerate investment in environmental, sustainable development and regeneration projects by using Joint European Support for Sustainable Investment in City Areas (JESSICA) within London.**

## Background to JESSICA

JESSICA is a policy initiative of the European Commission (EC), supported by the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), designed to exploit financial engineering mechanisms to support investment in sustainable urban development in the context of cohesion policy.

It has been launched with a view to leveraging additional resources for public-private partnerships (PPPs) and, in general, for urban-renewal and development projects in the regions of the European Union (EU).

It aims to promote sustainable investment, growth and jobs in Europe's urban areas and is designed to support the creation of Urban Development Funds (UDFs) which will select and support urban projects, providing them with loans, equity or guarantees. This will enable the managing authorities of Structural Funds to have greater access to funding for the purpose of promoting urban development. Project promoters could be public, municipal, or private sector enterprises and it will be possible for other private banks or investors to also participate.

The financial mechanisms will reinforce long-term sustainability through the recyclable and recoverable nature of the funds. Money generated through the UDF(s) can be reinvested to support other urban development projects.

JESSICA has been the subject of a number of past studies by the EIB and is now emerging into a clear mechanism under EIB / EU guidance. This work builds on those past study findings and the current guidance notes.

## The Business Case for JESSICA

JESSICA is a major opportunity for delivering urban investment in the EU and for EIB as a source of technical advice and potential manager of Holding Funds.

There are a range of advantages of using JESSICA, including:

- It provides additional resources and incentives for PPPs in urban areas;
- It gives greater financial expertise from specialist institutions such as EIB or CEB; and
- It ensures longer term sustainable impact for the European Regional Development Fund (ERDF) and other EU interventions.

There are different models for applying JESSICA, which could be geographically, thematically focused. There is no current "JESSICA Structure" model which should be directly replicated – bespoke solutions will be needed for each urban area.

Each area will have to design an approach, with the ambit of its economic development policies that the EU can support and the prevailing JESSICA guidance to develop proposals that are Specific, Measurable, Achievable, Relevant and Time-bound (SMART) and focussed on finance, delivery, integration, flexibility and economic parameters. These emerging JESSICA Structures will focus on supporting UDFs, which are envisaged to be the primary route for the investment of JESSICA funds into economic development projects.

# Introduction

## JESSICA in London

The EIB and London Development Agency (LDA) are seeking to use an appropriate “JESSICA Structure” for London that focuses on financing environmentally led regeneration projects through a single, or series of, UDF(s). The Structure will be the first of its type in the UK and therefore a precedent for the establishment of JESSICA backed UDFs across Europe.

The ERDF General Regulations state that Structural Fund Programmes should consider the option of using JEREMIE (Joint European Resources for Micro to medium Enterprises) and JESSICA in deploying support for regional development.

The JESSICA Structure is being applied to deliver a series of environmental projects to support Priority 3 of the London ERDF programme (see later section). This will provide investment to improve the level of sustainability in regeneration projects by allowing them to fully address the environmental requirements, such as energy, water and waste, of such investment programmes. This will help ensure that regeneration activity is helping support London move towards a low carbon economy.

Building on a market driven approach that is essential for the success and long term sustainability of proposed UDFs, the Funds used in the JESSICA Structure are expected to leverage substantial amounts of investment into areas in need of social cohesion and to speed up their transformation.

Core components from which the development of a JESSICA Structure can start from are:

- The London Development Agency (LDA) owns over 300 hectares of land in London, the overwhelming majority of which is in the east, in the Lower Lea Valley and Thames Gateway, which amounts to 10% of the total brownfield land in the region. The LDA is therefore the largest owner and developer of land in London and indicatively well placed to fit with the emerging objectives of the Structure.
- The London Plan is London’s response to European guidance on spatial planning and City’s link to European Structural Funds, enabling a strategic approach to be taken on the key issues facing London. The Plan identifies Areas of Regeneration, Opportunity and Intensification as this is where the potential use of JESSICA will be focussed.

The London Plan is the overarching document for economic development and regeneration in the capital. As such it ties together organisations, objectives, priorities and projects in the way that the EC requires for ERDF (and JESSICA) programme intervention.

## Project Terms of Reference

The purpose of this study is to build off the above, to establish if any potential projects exist that could be funded by JESSICA through the above mandates, review the nature of the required investment and how a JESSICA backed UDF could be deployed against this landscape.

The objectives of the evaluation study are as follows:

- To establish the rationale for, and financial feasibility of, using JESSICA to accelerate investment in environmental projects to support sustainable development and regeneration in London’s Opportunity, Intensification and Regeneration Areas included in the themes as highlighted below:
  - Primary Theme – aimed at directly increasing the extent and capacity of environmental systems, services and facilities, specifically decentralised services including energy and, where possible waste, as these are perceived as having direct income generating potential.
  - Secondary Themes –these are not necessarily income generating opportunities and need investigating, but include:
    - Land remediation and rehabilitation; delivering land decontamination, flood risk management and quality green space that will contribute directly uplifting land values and development potential; and
    - Increasing environmental performance of urban development by increasing environmental specification that will contribute directly to uplifting the value of developments.
- To identify and evaluate specific projects / programmes consistent with Priority 3, such as decentralised energy schemes, targeting opportunity, intensification and regeneration areas that could be supported by ERDF contributions using JESSICA. Also, to map other sustainable urban regeneration investment programmes that complement and could work with this programme;
- To propose adapted structure to take the JESSICA initiative forward that reflect the environmental focus of the UDF(s) and minimise management and application bureaucracy as well as costs.
- To suggest intervention possibilities for ERDF and EIB that address prevailing problems, reduce the identified constraints and add value by increasing the level of environmental sustainability by regeneration activity; and
- To identify the key market participants and their specific investment requirements, from both the public and private sectors, in financial engineering activities targeted at sustainable urban development.

# Introduction

## Study Objectives

In summary the objectives of this study are to:

- Review the landscape in which JESSICA has to operate;
- Identify the EU structural funding objectives that are most important to delivery of London economic development policy;
- Review project activity that is currently in development or in conceptual form to understand if there is a role for JESSICA to fund their delivery
- Understand the nature of the funding requirement for potential projects
- Outline a suitable structure through which JESSICA can be deployed in London
- Review the component elements of the structure and highlight areas where the EIB, LDA or CLG need to act to facilitate delivery

Opposite is a summary of the report structure to illustrate where these objectives are covered.

## Report Structure

In addressing the study objectives and overall needs of the EIB to instigate a JESSICA investment in London, the report contains the following sections:

- Context for JESSICA in London: provide an overview of the strategic and political regeneration landscape in which a potential JESSICA backed UDF would operate
- Identification of eligible activities: a review of possible activities for the UDF based on the initial review of EU targets and objectives for London. Information is also provided on the nature of these activities and begin to explore possible routes for JESSICA investment to support their delivery.
- Approach to deploying JESSICA: based on the above findings set out what is the optimum delivery structure for investing in UDFs and discuss the emerging issues and details around this Structure's operation.
- Findings and Recommendations: concluding the work of the study, setting out the identified role for JESSICA in London and the next steps to taken if it is to be realised.

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# Context for JESSICA in London

# Strategic Context for JESSICA in London

**This section summarises the London ERDF Operational Programme and how JESSICA will help deliver its key objectives.**

## The London ERDF Operational Programme 2007-2013

The overall economic performance of London is considered to be strong when compared to other regions. However, the distribution of the city's jobs, skills and wealth varies greatly geographically and across its diverse communities.

With some of the most intense local deprivation in England there is a need for London to address local disparities and improve opportunities for all people in all areas to fully participate and contribute to the competitiveness of the economy.

The Operational Programme (OP) provides a framework for investment of the ERDF in London for the period 2007-13. **It aims to promote greater innovation, collaboration and environmental efficiency, investing in environmental improvements which will help transform the economic opportunities in areas identified in the London Plan.** These are areas considered to have the largest scope for increasing job provision.

It is believed that targeted investment will improve the physical and environmental capacity of underperforming locations in London and help them to **become sustainable places** where business will want to invest and therefore generate employment opportunity.

Environmental development and enhancement is a key priority within the Programme to address London's underperformance on environmental issues and tackle the potential impacts of climate change in London. Environmental sustainability is integrated into every element of the ERDF programme.

The London Operational Programme sets out four Priorities, as outlined opposite. Priority 3 (P3) focuses on London's Opportunity, Intensification and Regeneration Areas and is the greatest fit with the application of JESSICA to urban renewal.

The main objective of P3 is to improve the competitiveness of economically and socially deprived areas of London and to secure their long-term regeneration through supporting the development of high quality working environments and low/zero carbon employment sites and premises, with a particular focus on encouraging clusters of businesses, particularly green businesses, and low carbon demonstration projects.

### The London ERDF Vision

To promote sustainable, environmentally efficient growth, capitalising on London's innovation and knowledge resources with a focus on promoting social inclusion through extending economic opportunities to communities, in areas where this is most needed.

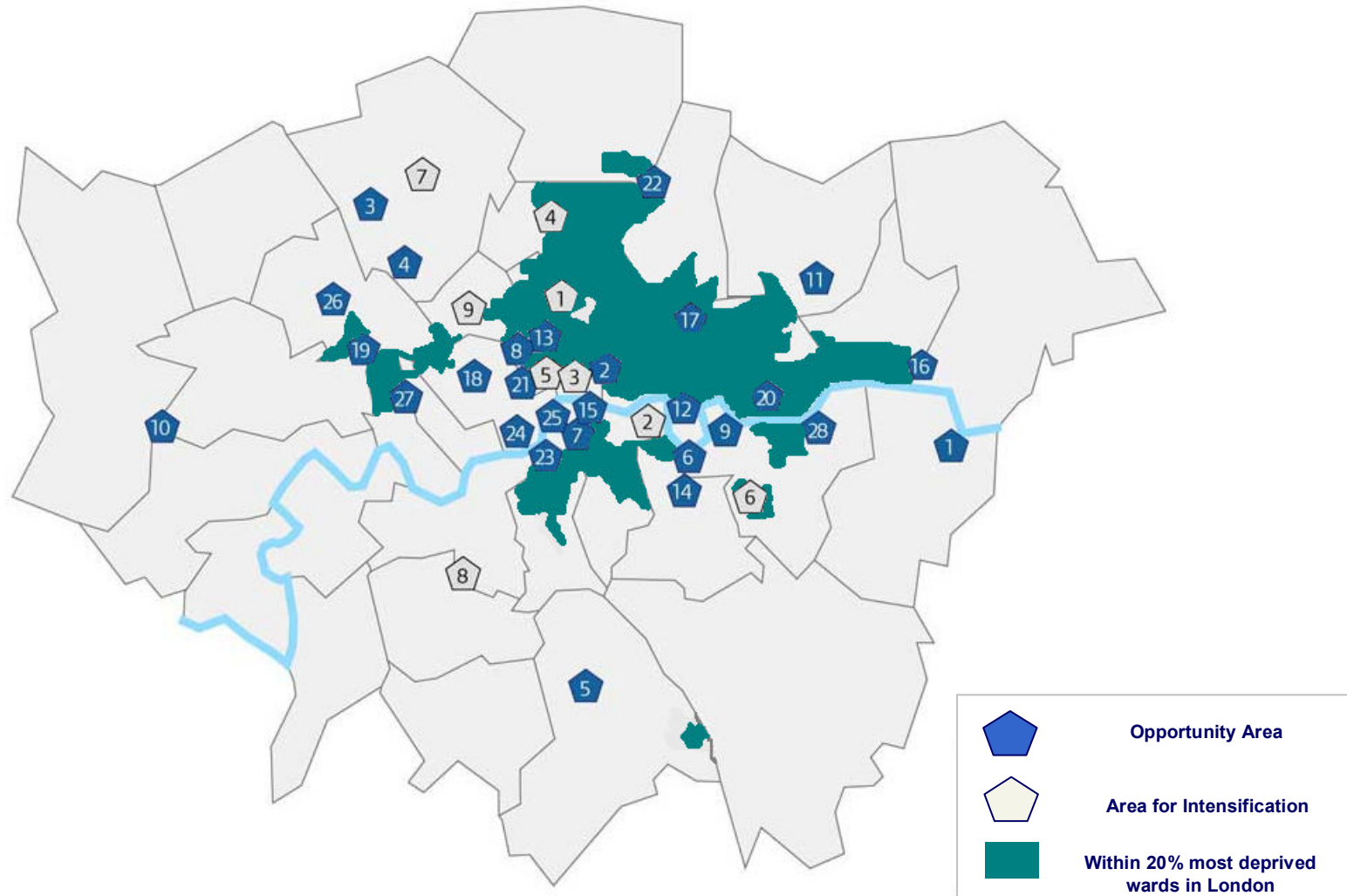
### London OP Priorities

- Priority 1 - Business innovation and research and promoting eco-efficiency;
- Priority 2 - Access to new markets and access to finance;
- Priority 3 - Sustainable Places for Business; and
- Priority 4 - Technical assistance

# Strategic Context for JESSICA in London

## The London ERDF Operational Programme – Priority 3 Areas

These areas of London have been identified in the Mayor's strategic development plan for London (the London Plan) as Opportunity Areas, Intensification Areas for development, and Areas for Regeneration.



GLA

# Strategic Context for JESSICA in London

**The London ERDF Operational Programme 2007-2013 is a strategic fit with the EU's Community Strategic Guidelines and the UK's National Strategic Reference Framework. JESSICA is a key delivery mechanism within the Programme and also fits strategically with several other strategy documents discussed in this section.**

JESSICA will help deliver activities falling under Priority 3 (Sustainable Places for Business) of London's Operational Programme which is a strategic fit with the EU's Community Strategic Guidelines (CSG) and complementary to the UK Government's National Strategic Reference Framework (NSRF). With reduced financial resources for Structural Funds in London for 2007-2013, it is important to ensure an integrated approach across the ERDF and European Social Fund (ESF) programmes to maximise effectiveness.

## EU's Community Strategic Guidelines (CSG)

The EU's CSG indicate that future Structural Funds should target resources on three main priorities:

- Enhancing the attractiveness of member states, regions and cities;
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy; and
- Creating more and better jobs.

## The UK's National Strategic Reference Framework (NSRF)

The UK's NSRF proposes four priorities for ERDF Competitiveness programmes in England:

- Promoting innovation and knowledge transfer;
- Stimulating enterprise and supporting successful business;
- Ensuring sustainable development, production and consumption; and
- Building sustainable communities

Several key national and regional plans exist that are relevant to the implementation of a JESSICA Structure in London and will guide the nature of activities it can invest in. The overarching document that draws these wider plans and strategies together is **The London Plan** which is further supported by:

- London's Economic Development Strategy (EDS);
- London's Climate Change Action Plan;
- Securing the Future: the UK's Sustainable Development Strategy
- Various regional and local plans

These plans and their links to JESSICA via P3 are discussed later in this document.

# Strategic Context for JESSICA in London

**The budget for London's ERDF programme has been apportioned taking account of EU policy and priorities, the aims and objectives of the programme and the rationale for intervention provided by the London Plan.**

The expenditure profile of the previous programme, and the likelihood of appropriate match funding being available have also been taken into account.

**The Operational Programme financial plan  
– annual commitments 2007-2013**

Year	ERDF Total
2007	€24,466,274
2008	€24,955,599
2009	€25,454,711
2010	€25,963,806
2011	€26,483,082
2012	€27,013,743
2013	€27,552,998
<b>Total (2007-2013)</b>	<b>€181,889,213</b>

**Financial Allocations by Priority**

	ERDF Funding	National Counterpart (Match Funding)	Total Funding
Priority 1	€50,019,533	€50,019,533	€100,039,066
Priority 2	€51,838,426	€51,838,426	€103,676,852
Priority 3	€72,755,685	€91,464,290	€164,219,975
Priority 4	€7,275,569	€7,275,569	€14,551,138
<b>TOTAL</b>	<b>€181,889,213</b>	<b>€200,597,818</b>	<b>€382,487,031</b>

4% of funding is allocated to Technical Assistance

The Programme has allocated approximately one quarter of the funding available in each of Priority 1 and 2, as these areas will typically support less tangible outcomes than Priority 3, which is seen to be a catalyst to producing further change in the London economy through enabling businesses to develop commercially, whilst at the same time complementing the wider activities supported by Priority 1 and 2.

Priority 3 will require significant investment if areas of social deprivation are to be regenerated to provide economic opportunities for surrounding communities and to establish projects that support and develop low and zero carbon technologies, helping to mitigate the effects of climate change. Areas supported by Priority 3 will be areas of high deprivation, not receiving Olympics infrastructure funding.

The Operational Programme works on the basis that up to 70% of P3 funding allocations will be deployed through a JESSICA structure (as defined by the LDA). Assuming a 1:1 match funding, this equates to around €100 million of total funding being channelled into the Structure, which in turn could lever additional wider public or private sector investment of around €200 to €400 million (again, based on LDA and EIB expectations).



# Strategic Context for JESSICA in London

€164m is available under Priority 3 eligible activities, identified under the theme below.

Theme 1: Environmental enhancement of working premises and surrounding space, and support for business clusters		
Action	Potential Activities	Output / Outcome
Creating low or zero carbon employment sites and premises	Low or zero carbon flexible business incubators/workspace that has exemplar energy efficiency and wider environmental specification. This would include: energy and water efficiency; micro-generation and renewable technologies; use of sustainable and recycled materials; waste management facilities; incorporation of sustainable drainage systems; integrated landscaping for people and biodiversity; and improved accessibility. These opportunities would be linked to the innovative SMEs supported through Priority 1 and 2 where appropriate.	5 hectares of brownfield land reclaimed and / or redeveloped
Supporting the development of business clusters	Promoting the development of clusters of businesses, particularly those providing eco-efficiency and environmental services in or adjacent to Opportunity Areas, Areas of Intensification and Areas of Regeneration.	4,286 SME businesses assisted
Contributing to a low carbon economy through installing low or zero carbon energy generating systems and distribution networks	Delivery of demonstration and pilot decentralised co-generation (electricity and heat generating) and distributing systems to deliver new innovative approaches to supplying low carbon heat and electricity to businesses in employment sites. These new low carbon technologies could include: Combine Heat and Power (CHP); Combined Cooling Heat and Power (CCHP) waste to energy systems such as gasification or pyrolysis.	5 demonstration projects show-casing renewables
	Delivery of demonstration projects that install and distribute on-site solar, wind, biomass geothermal, anaerobic digestion, fuel cells or any other appropriate renewable energy technologies and distribute the resulting energy to businesses premises	5 sites with environmental improvements
Incorporating adaptation to climate change in employment sites and areas through the creation of associated high quality natural environments	<p>Leveraging investment from the public and private sectors by delivering strategic investment for environmental enhancement in and adjacent to important employment generating areas, focused on Areas of Opportunity or Intensification, to create spaces of high environmental quality that contributes environmental, social and economic benefits to the business and wider community. These sustainable business locations and settings will be more attractive to business and deliver regeneration benefits.</p> <p>Activities will need to address the environmental, social and economic risk/issues associated with Opportunity and Regeneration areas that create sustainable employment locations and settings</p> <p>Activities that address risks to investment in employment areas include:</p> <ul style="list-style-type: none"> <li>- Environmental risks – such as flood risk, derelict and contaminated land and degraded natural environments</li> <li>- Social risks - such as lack of areas for recreation and relaxation; crime and fear of crime, inaccessible to residential areas</li> <li>- Economic risks – physically degraded and inaccessible employment areas that are not connected to the wider community and area; employment sites and areas where businesses and people do not want to locate</li> </ul>	<p>1,182 jobs created</p> <p>5,500m<sup>2</sup> of floor space upgraded</p> <p>40 MWh of additional capacity of renewable and co-generated energy production</p>
Delivery of sustainable urban regeneration activity through an investment fund	The establishment of capital loan funds in line with the JESSICA fund mechanism that are targeted at sustainable urban regeneration activity to ensure it incorporates 'good practice' environmental specifications as well as energy, water and waste infrastructure	5 investments through JESSICA
Promoting the benefits of environmental sustainability and sharing best practice	Marketing and promotion to ensure the London business community understand and value the benefits and opportunities associated with operating in or locating to sustainable business premises, settings and locations, particularly in areas of regeneration.	50% reduction in volume of waste produced by business

Source: London ERDF Operational Programme

# Indicative Need for JESSICA in London

**There is a strategic alignment for several key London strategies to EU structural funding that articulates the need for JESSICA investment. These key strategies are drawn together within the London Plan – the overarching economic development ‘route map for ERDF intervention in London**

MAYOR OF LONDON



## The London Plan

The London Plan is London's spatial plan and sets out the spatial and economic development priorities for London. It is London's response to European guidance on spatial planning and a link to European Structural Funds. It enables a strategic approach to be taken to the key issues facing London, setting out an integrated social, economic and environmental framework for the future development of London for the next 15-20 years. It links directly to the Mayor's other key strategies and identifies broad locations for change, providing a framework for the development of land.

The Plan identifies priority areas for development in London on the basis of both need and potential to accommodate growth. These are the Areas of Regeneration, Opportunity and Intensification. Areas of regeneration are the areas of most socioeconomic need and the Areas of Opportunity and intensification are identified on the basis that they are capable of accommodating substantial new jobs **and/or** homes and their potential should be maximised. These areas generally include major brownfield sites with capacity for new development and places with potential for significant increases in density.

JESSICA will target investment opportunities within these areas as this is where the main regeneration activity in London will occur and where the opportunity to ensure the regeneration is truly sustainable exists. With sustainable and environmental development key project investment requirements, JESSICA will help deliver key objectives of the London Plan

The most recent revisions to the Plan relate to policies on mitigation and adaptation to climate change. The Plan supports the need for this kind of activity under P3 of the ERDF Operational Programme for London; making aligned projects eligible for ERDF (and JESSICA) investment; such as developing the capacity of decentralised co-generated and renewable energy, provision of heating and cooling networks, creation of green/brown roofs, sustainable drainage and steps to mitigate flood risk.

### **An Integrated Plan for Sustainable Urban Development**

JESSICA requires that projects supported form part of an integrated plan for sustainable urban development. The meeting minutes of the UK managing authority, DG Regio and EIB on JESSICA record that there is no requirement for the London Plan to be formally validated as an 'integrated plan'. However the Commission has reviewed the content of the Plan and no issues have been identified that prevent the Plan being considered as fulfilling the Commissions requirements.

# Indicative Need for JESSICA in London

MAYOR OF LONDON



## The London Plan

The London Plan integrates environmental issues into spatial planning policy for London and this is highlighted in Chapter 4 'The cross cutting policies' and specifically in chapter 4A 'Climate change and London's metabolism' and chapter 4C 'The Blue Ribbon Network'.

The London Plan acts as the integrating framework for all London's statutory and non-statutory documents and as such provides the spatial planning context strategies that will be relevant to any projects funded through Jessica structure.

These will include areas such as: tackling climate change, sustainable energy, adaptation to climate change sustainable flood risk management, water efficiency and waste management.

## London's Economic Development Strategy Sustaining Success: Developing London's Economy



The Economic Development Strategy (EDS) is one of a series of strategies to deliver the Mayor's vision for London and was the primary reference strategy in developing for the Operational Programme. It focuses on four major investment themes:

### Places and Infrastructure; People; Enterprise; and Marketing and promoting London

The strategy is designed to drive sustainable economic growth by building on London's economic strengths, addressing its weaknesses and identifying future threats to its prosperity and growth. It recognises that it is vital that this growth is sustainable, and does not come at the expense of the environment or the quality of Londoners' lives.

JESSICA fits most directly with the Places and Infrastructure strand of the EDS as it will support the delivery of the London Plan to promote sustainable growth and economic development. It will help improve the sustainability of regeneration by investing in environmental aspects of development activity to ensure this activity contributes to improving quality of life

# Indicative Need for JESSICA in London

## The Thames Gateway Delivery Plan



The Thames Gateway is where the LDA has a significant amount of its land holdings. It presents a great challenge in the development of sustainable communities as the area has high levels of deprivation, access problems, limited infrastructure, environmental degradation and contamination. Due to the range of issues affecting the area there are limited investment opportunities and developer interest that has resulted in sites in the area not being developed.

The key strategic link for JESSICA is in making a step change in improvements to the ecological footprint of new and existing developments and catalyse the growth of new and emerging environmental technologies and industries as stated in the Thames Gateway sustainable communities plan.

The Thames Gateway Delivery Plan (Nov 2007) sets out the Government's priorities for investment aimed at delivering their vision for the Thames Gateway. The Plan will be structured around 3 driving forces: a strong economy; improvements in the quality of life for local communities and the development of the Gateway as an eco-region.

Developing the Gateway as an eco-region will drive the sustainability standards of regeneration activity by setting higher environmental standards for the region. These standards will drive development activity to deliver reductions in carbon emissions, water usage and waste as well as improvements in quality and functionality of green space and protection for people from flood risk. The Plan identifies the need for an Environmental Investment Fund to deliver low carbon and other environmental objectives for the regeneration of the Thames Gateway and recognises that JESSICA could play a role in this.

## The Regional Development Agencies' Economic Development Investment Plan

The Economic Development Investment Plan (EDIP) - prepared by the London Development Agency (LDA), the South East England Development Agency (SEEDA) and the East of England Development Agency (EEDA) - sets out the priority Gateway-wide strategic investments that have been identified to improve the economic performance of the Gateway. It builds on the joint *RDA Economic Statement for the Thames Gateway* (2006) and aligns with the three *Regional Economic Strategies*.

The economic vision for the Gateway is to create "a knowledge-driven, well connected, globally competitive region, which demonstrates how economic growth and environmental sustainability work together."

The Regional Development Agencies agree that there is a strong economic rationale for focussing public investment in the Thames Gateway. This provides a real opportunity for using the JESSICA investment model to help deliver a truly sustainable low carbon Gateway.

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# Identification of Appropriate Activities

# Appropriate Activities for JESSICA in London

**Sustainable urban regeneration is the overarching objective of the JESSICA programme for London. This section summaries the need for JESSICA and project selection process.**

## Overview of Need

In 2006 London produced nearly 67 million tonnes of CO<sub>2</sub>, representing 11% of the UK's emissions (8%, if emissions from London's aviation sector are omitted). Energy efficiency is critical in reducing the capital's carbon footprint, and more efficient use of energy is as important as the development of low and zero carbon sources if the impacts of climate change are to be mitigated. As London's population continues to increase it places further pressure on existing resources. Energy consumption therefore needs to be reduced but it increasingly needs to be found from low and zero carbon sources.

The London Plan states that London will work towards the long-term reduction of carbon dioxide emissions of 60% by 2050. The London Climate Change Action Plan sets a London target of 60% reduction in CO<sub>2</sub> by 2025. The London Plan also sets a target of 25% of London's energy requirements to be met from decentralised energy.

However, the issue of the environment also encompasses concerns, such as water resources, flood risk, waste management an green spaces. Furthermore, in, spatial terms many of the boroughs with degraded environments are also those with underperforming business and with high deprivation. London has some significant environmental challenges that it will need to meet as its population increases and its economy grows. This is why environmental sustainability is an important element in the ERDF programme and the overarching theme for Jessica investment.

## Potential Types of Investment Opportunities

Creating low or zero carbon employment sites and premises with high environmental specifications

- Examples might be securing high technical specification for employment sites/developments, and/or public realm

Contributing to low carbon economy through installing low or zero carbon energy

- Examples might be CHP, decentralised energy or other renewable energy technologies
- Investment where private sector is major partner

Environmental Systems, services and facilities and land remediation to support sustainable urban regeneration

- Examples might be technology for waste disposal, anaerobic digestion, re-processing/recycling.
- Investment to attract private sector investment to develop technologies

Addressing the economic risks of environmental degradation and climate change to employment sites/ areas/ businesses

- Examples might be investing in added value infrastructure/public realm to enhance potential of employment sites

# Appropriate activities for JESSICA in London

**The delivery of business related and environmental friendly sustainable urban regeneration will be applied across a number of different ‘themes’ and projects.**

## Deprivation

One of the key challenges facing deprived areas in London is the degraded natural environment and poor quality of their surrounding urban space. This discourages businesses from locating in these areas and deprives them of much needed private investment.. This limits the economic activity and consequently the job opportunities in the area.

Environmental issues, such as brownfield and contaminated land and lack of quality green and open spaces, and social issues, such as high levels of crime, are contributory factors that deter private investment and increase the perception of urban deprivation. Under these circumstances private business investment is unlikely and public sector investment is critical to kick-starting the required physical regeneration.

The JESSICA structure will help ensure the delivery of essential environmental elements as part of a wider package of regeneration activity in areas to reverse trends of deprivation and provide high quality employment spaces and areas that contribute to developing a low carbon economy in London.

## Market Failure

The Government's Stern Review illustrated that climate change has occurred as a consequence of not controlling the green house gas emissions associated with economic growth over the last 150 years and it is a clear example of market failure. In the context of the environmental there is a general issue of market failure resulting from the fact that when acting according to their own interests, individuals and business will not take into account the full costs of the environmental externalities associated with their activity.

This is where intervention through JESSICA could make a difference, encouraging businesses in the environmental sector and establishing demonstration activities which should enable further change across London. Examples could be the installation of de-centralised energy networks, the development of environmental business parks within target areas or development of waste management facilities, to promote and facilitate sustainable economic activity. Given the scale of the overall challenge resources are being targeted at specific locations and on specific aspects of environmental sustainability to ensure a tangible contribution is made.

It is important to recognise the nature of this intervention in terms of addressing imperfections in the market to deliver certain types of projects. Strictly, the intervention is not addressing complete market failure, more it is designed to focus on those elements of a project that provide the private sector with an unacceptable risk profile. These areas typically include, uncertain market demand, new or emerging technology, or an unusually long lead time to returns being generated. Market imperfections (particularly acute due to the current global credit crisis) mean that ‘as risk’ funding is not readily available to deliver the project even though the majority of the project is ‘bankable’ and has a clear commercial rationale. It is therefore proposed that the JESSICA Structure deals with the areas of risk (and financing) in a project that prevents its delivery.

# Potential Investment Opportunities

**A long-list of potential investment opportunities was evaluated against key requirements.**

## Evaluation of Potential Investment Opportunities

In consultation with the LDA, projects appearing to fit the criteria outlined earlier were identified to form a long-list that could be assessed to appraise the potential of JESSICA as an instrument for delivering ERDF investment in line with the Structural Funds Operation Programme 2007-2013.

Project managers completed a template to capture key information and data in relation to the project and its suitability for JESSICA. The information request included a description of the project; its strategic fit with the Operational Programme; its alignment with the London Plan; key risks and benefits; cost information on capital and revenue (where available); project management/delivery details; the role of the private sector and how JESSICA investment may be used. 16 projects were highlighted for further consideration as setting out a strong early case for investment. The thematic areas they were classified under are shown below.

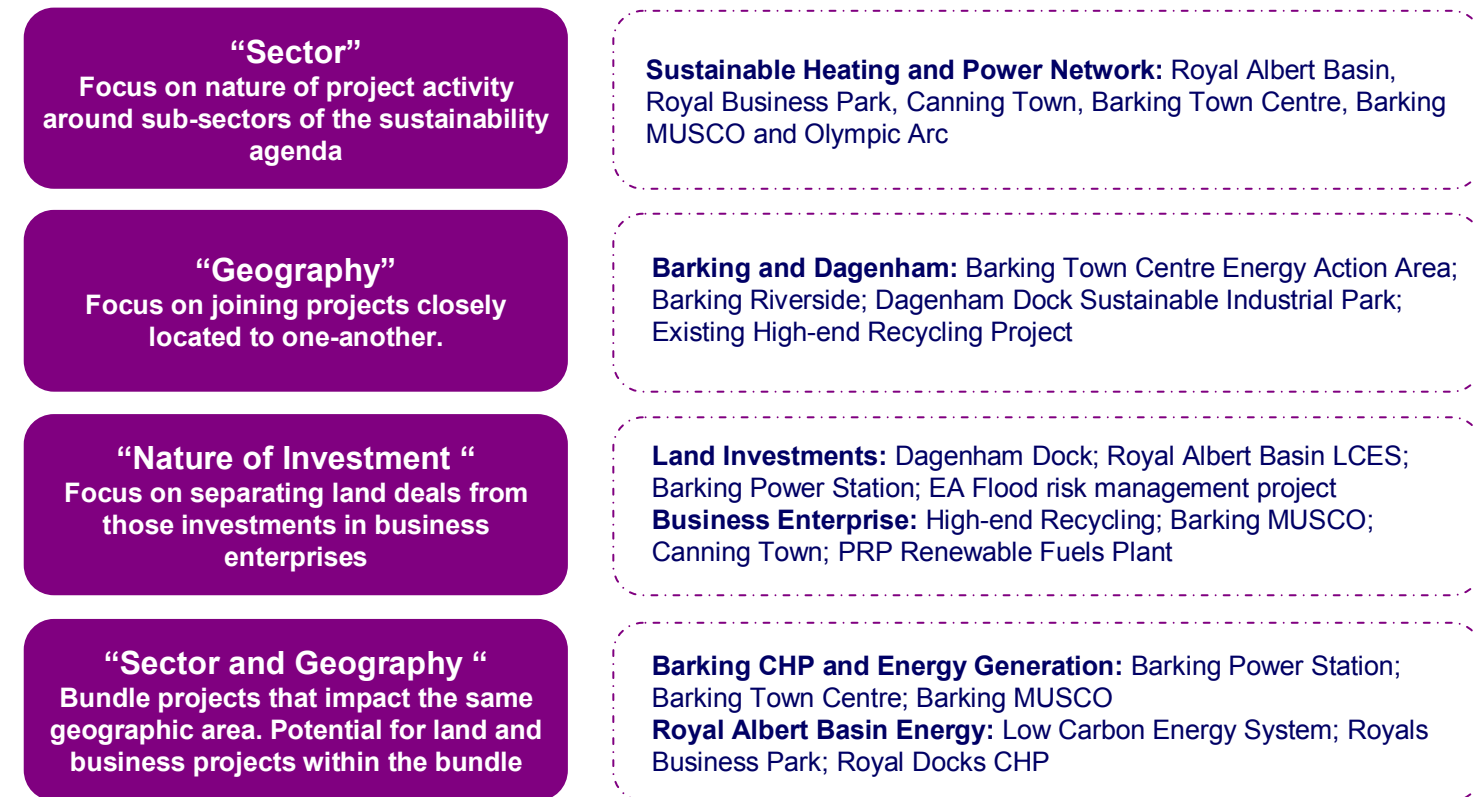


# Project Synergies / Bundling

**Our evaluation of investment opportunities highlighted the possibility of bundling projects together to create greater scale of economies.**

Bundling projects would also mean that investors would have an increased selection of options. Rather than investing in one particular project they could invest in a particular area, or a particular sector. In addition, the bundling of options may make management of projects less complex, enabling specific delivery skills to be utilised and not dilutes across a range of projects. We have identified four options for grouping or bundling projects, which are summarised below. The need for finance within project bundles can then be reviewed, including the context for which JESSICA UDF backed investments can be made

*(note: analysis below provides illustrative examples only)*





# Constraints to project delivery at present

**The key constraint to project delivery of current investment opportunities is the availability of robust financial information, particularly to the level required to make an investment decision.**

Investors will require robust financial information to help inform decisions on whether to commit to the opportunities JESSICA presents. They need to know the following:

- The scale of the investment requirement;
- How long it will be until the investment starts to yield returns;
- What the level of expected profits on the investment are likely to be and consequently how long the payback period is; and
- What the key risks are for the project and therefore the level of risk attached to the investment.

Our evaluation of 16 investment opportunities identified projects with real potential for funding through JESSICA as they are a strategic fit with the Operational Programme for London and the London Plan.

However, more detailed information is required in the form of a business case before it is possible to conclude whether projects are suitable to attract private sector investment. Of the investment opportunities examined, only the Barking Power Station and the existing high-end recycling project had sufficient detail.

The 'Closed Loop' project was for demonstration purposes and therefore not applicable for taking forward but it appears that Barking Power Station is a strong candidate to be taken forward as an early pilot project for JESSICA it appears to be closest to having the required information to make it ready for 'investment appraisal'.

Other projects can be brought forward with the development of an outline business case to include a rationale for JESSICA funding. For example, the other Barking related projects (riverside, MUSCO, green space and town centre energy action plan) as well as Dagenham Dock and Royal Albert Basin.

## Creating More Deal Flow

The implication for JESSICA and its delivery mechanism appears to be generating a sufficient 'pipe line' of investment ready options that a UDF can fund.

Therefore a UDF could have a wider role than the traditional UDF model with the objective of increasing the number of investment opportunities it participates in:

- Possibly provide early funding to work up feasibility studies and/or business case materials
- Acting as an co-ordination body to bring together complimentary projects into a 'bundle' of investment
- Take a lead role in bringing together other external funders into a UDF

The above examples are purely indicative at this stage, however they will help shape the 'mechanism' by which JESSICA is deployed in London.

# Summary Activity Options for JESSICA in London

**A common area of activity that has emerged from our evaluation of investment opportunities is de-centralised energy.**

JESSICA in London will promote urban development and regeneration by encouraging investment in environmental projects within deprived neighbourhoods. Decentralised Energy (DE) is a common theme across several projects as it is currently considered to be one of a number of practical ways to meet London's targets to improve energy efficiency and reduce carbon output.

Up until now, decentralised energy has mainly been locally focussed, micro-generated but schemes, on a building by building or site by site basis. An opportunity is being missed to be more strategic by combining or making larger schemes which will result in higher carbon reductions, lower costs and achieve greater efficiency savings. The LDA's Decentralised Energy Delivery Programme (DED) will help provide the required strategic direction.

JESSICA intervention is required as there is currently market failure, a lack of incentive for the private sector to invest as pricing and the regulatory environment are not currently conducive to a viable business case. The carbon trading market is also not yet sufficiently mature.

JESSICA can make a difference as the costs to business associated with installing the necessary technology to make a switch to DE systems can prevent them from investing in renewable energy sources. A JESSICA funded DE demonstration scheme such as Barking Power Station could, through the development of a public private partnership, help make the step change to making such programmes economically advantageous.

## Decentralised Energy

Currently most electricity is generated from large, centralised facilities (power plants) but these have high CO<sub>2</sub> emissions and waste energy by not utilising the heat produced in the process and also through losses in transmission.

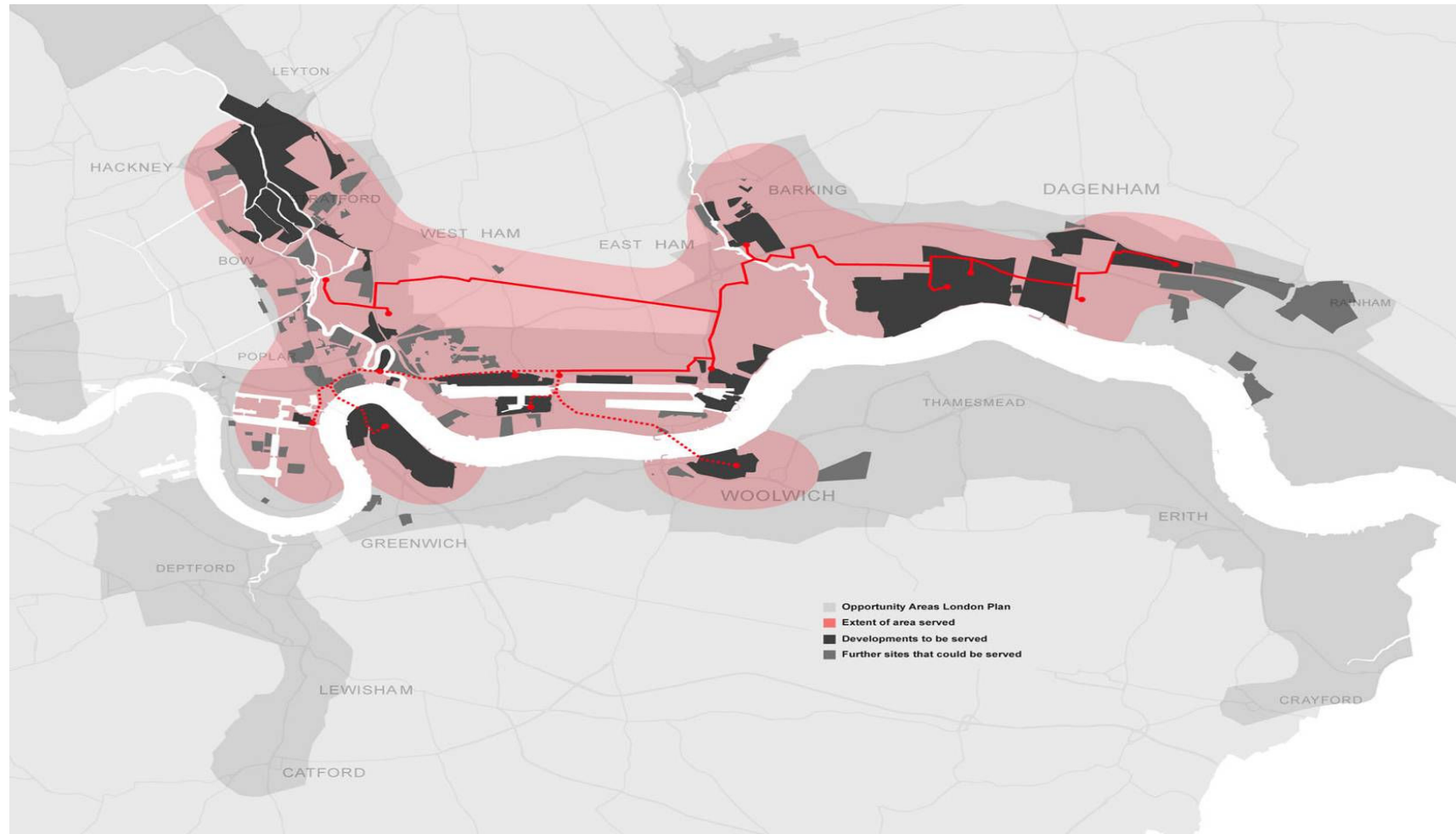
Decentralised energy uses technologies such as combined heat and power (CHP) to minimise the amount of energy waste by utilising the heat produced during the process and also generating it close to the point of use.

CHP plants can use renewable fuels, such as biomass or biogas from anaerobic digestion, and sources to generate heat and power to supply buildings.

The following slides outline the current Barking Power Station proposals that appear to be the most advanced project plans suitable for JESSICA funding. These provide the reader with an overview of the project, for which significant further details has been prepared by the LDA.

## An Early Investment Project: CHP Network Barking

An opportunity exists for the JESSICA Structure to invest in a UDF that supports the development of a Combined Heat and Power (CHP) 'spine' from Barking Power station into the Barking area.



# Summary of Activity Options

**There appears to be a number of opportunities for JESSICA to be used to stimulate the delivery of projects in London. However, further development work is required to increase the current deal flow of projects in this area.**

## Introduction

This section has outlined

- The criteria for project activity that would be suited to a JESSICA backed UDF investment.
- Undertaken an early review and appraisal of each project has highlighted a number of opportunities that appear aligned to EU and JESSICA investments.
- Assessed the appetite to embrace JESSICA amongst the economic development community

We have also put forward our views on early win projects that could be the first delivered through a UDF

## Summary of section

- The Barking Power Station decentralised energy project is the only current LDA project that displays an immediate need for JESSICA investment. Other project have been identified that could, with further developmental work, display similar traits of eligibility
- A number of emerging projects have not been afforded the outline feasibility and business case development work to enable a definitive judgement on their JESSICA eligibility to be ascertained. The public sector is keen to use JESSICA to facilitate these projects
- It is possible that a number of projects could come together under a 'bundle of investment' as they plan to impact similar objectives within a well defined geographical area.
- The role of JESSICA would be most beneficial if it could include some form of assistance to draw together project bundles and fund the outline feasibility and business case development work current missing from a large proportion of projects.

## Areas to explore further

The remit and timescale for the completion of this study prevents us undertaking further detailed work to aid project identification.

However the results of our work have outlined a series of actions that could be explored by further work (possibly by the LDA or one of its partner agencies) that could increase the number of potential projects and the level of detail available for them

- Completion of a detailed business case for the Barking Power Station project, based on the revised cost estimates understood to be available from July 2008;
- Linking projects / bundles, particularly exploring the opportunities for linking Decentralised Energy projects;
- Liaise with other agencies, such as the Environment Agency, or English Partnerships (HCA) to identify further project opportunities; and
- Host a market briefing day to inform the marketplace of JESSICA and stimulate potential projects, particularly in the recycling / renewables sector.

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# Approach to Deploying JESSICA

# Overview of Approaches

**Guidance issued by the EU on the use of JESSICA has already established the rationale and precedent for a regeneration funding mechanism. We therefore explore how a JESSICA Structure in London could be constituted and key issues it faces**

The diagram opposite sets out a generic structure for a JESSICA Structure that applied to London. This is based on past work we have undertaken and sector 'accepted good practice' on investment routes into UDFs. It also reflects current EU/EIB guidance on the role of a Managing Authority and Holding Funds, specific to the JESSICA instrument.

The diagram illustrates the key components of a generic JESSICA Structure that could fund a series of UDFs, which we illustrate and discuss in more detail later in this section. Having completed some initial review work on the nature of projects likely to be funded through the JESSICA Structure, the following principles and options are now considered in order to refine this generic option into a suitable mechanism for the London proposals.

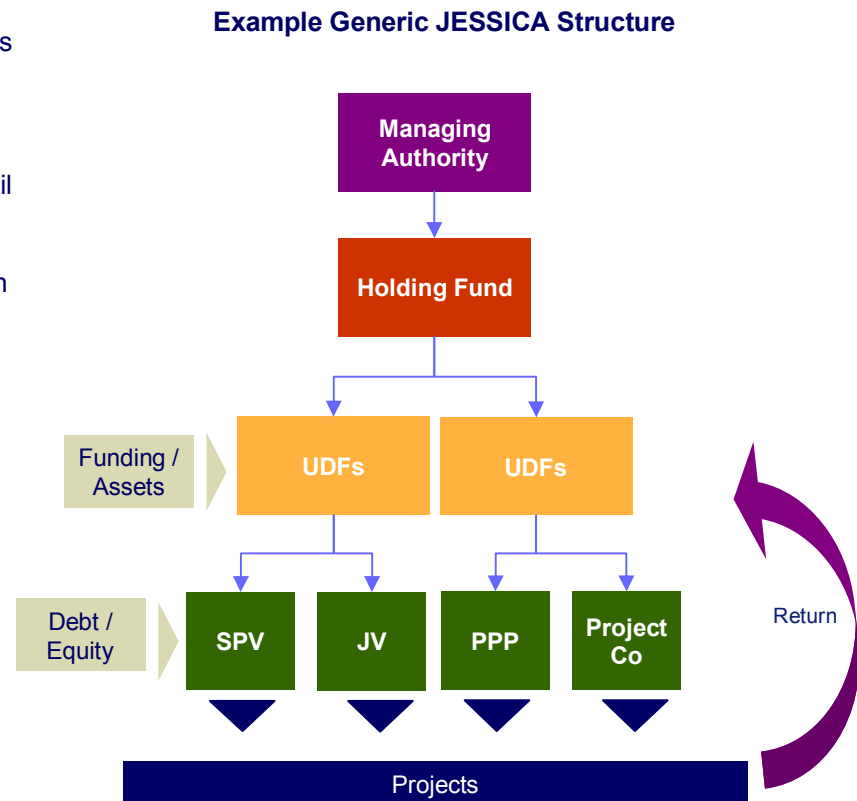
## Key principles of a the Structure

- Maximise the potential for investment from the private sector at a number of 'levels' within the structure
- Set up to deliver the most benefit to the projects i.e. could be an overarching fund accessed by several UDFs
- Make the process of accessing funds efficient
- Clear lines of accountability and governance with defined roles and responsibilities for all public sector partners

## Head line options for the London Structure

- Incorporate a holding fund as permitted under the JESSICA guidance
- Support one (newly established or existing) UDF that makes all JESSICA backed investments
- Support several UDFs that each focus on tightly defined objectives.

Before we consider each component part of the generic structure and how it applies to the London model, we firstly review the investment needs of the projects likely to be funded.



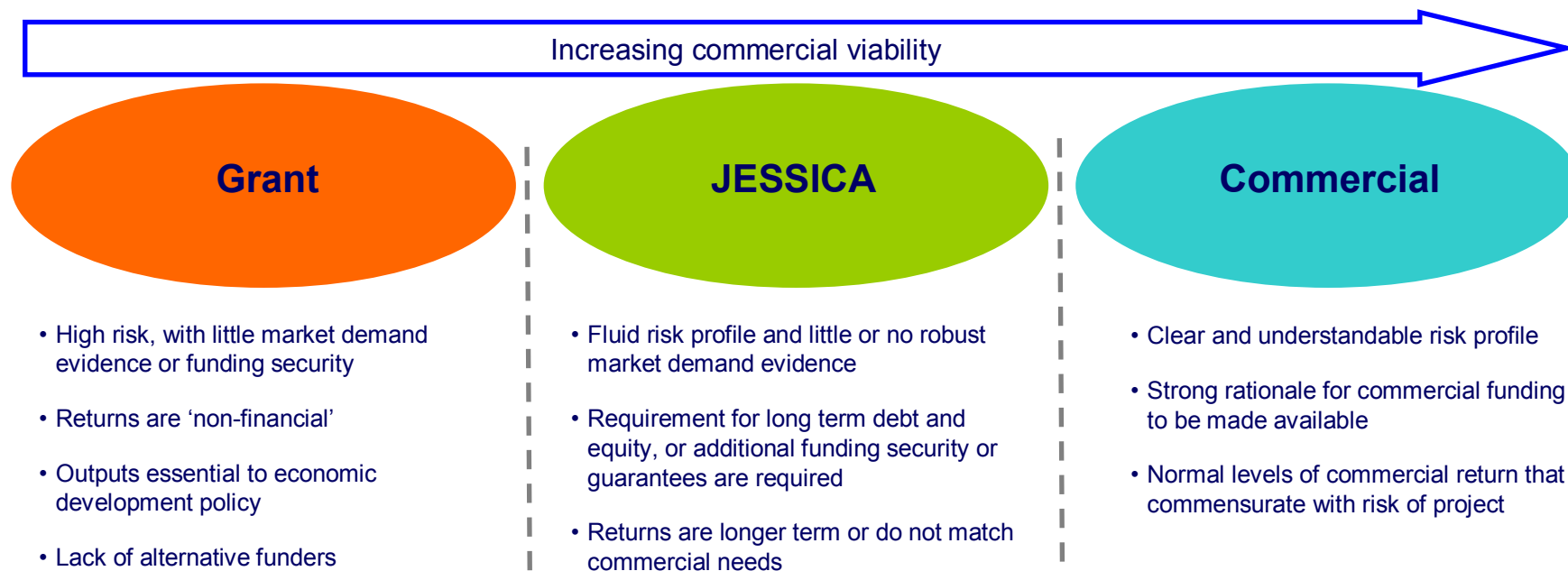
# Defining the Investment role of JESSICA

**Initial project review work has helped identify an area of project viability in between grant support and commercial viability where the optimum impact from JESSICA can be derived.**

It is assumed within JESSICA guidelines that, in general terms, projects generating a level of commercial return that satisfy the requirements of private finance will continue to be funded through conventional means. Similarly, the requirement of the JESSICA guidance to see some form of return arising from a project excludes a number of projects that display no commercial viability, but have significant economic development benefits – these would remain the focus of grant funding schemes.

To retain an overarching 'spirit' of additionally to its deployment, JESSICA should therefore to be applied to those projects that cannot make the 'returns hurdle' set by commercial funders either because of the uncertainty or longer terms nature of the returns.

In effect , JESSICA should target those projects that are just failing to be 'commercial' and provide the necessary equity, loans or guarantees to encourage other investors to fund the project.



# The Role of the Managing Authority

**Under ERDF rules, a Managing Authority is required to assume the responsibility for ERDF programmes in each member state. In England, the Department for Communities and Local Government (CLG) has this statutory role.**

## Introduction

CLG has the statutory responsibility for ERDF programmes in England. CLG has devolved operational responsibilities to English RDAs through Statutory Instruments. In London, the Greater London Authority and London Development Agency have been designated via statutory instrument as 'intermediate bodies' that carry out certain programme functions.

The GLA make the final selection of projects for ERDF support, and/or deciding whether to offer grant for a project.

The LDA's European Programmes' Management Unit are responsible for all other operational matters.

As in all regions, a regional Programme Monitoring Committee comprising London stakeholders (and chaired by the Mayor's office) is responsible for approving the criteria by which project selection is made.

## Governance in relation to JESSICA

The arrangements described opposite result in several English bodies playing a role in JESSICA 'governance'.

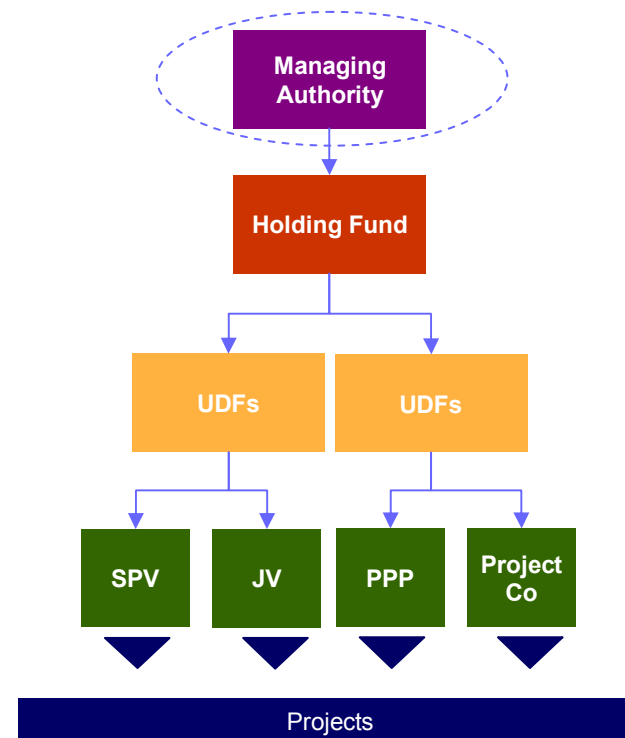
The Mayor will take the decision to commit ERDF through JESSICA.

As with any significant loan or equity investment scheme involving ERDF, CLG as Managing Authority need to be satisfied that there has been an evaluation that supports the viability of such a scheme, as envisaged in the relevant Operational Programme.

The London ERDF Programme Monitoring Committee will approve the criteria by which the Holding Fund selects and invests in UDFs.

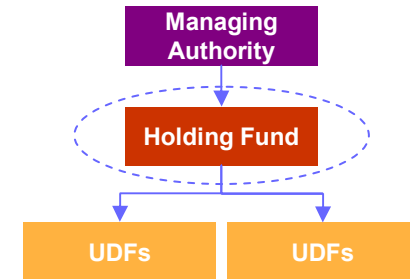
The LDA Board must also approve use of JESSICA, given potential financial and reputational implications for the LDA.

## Focus on the Managing Authority



# The Role of a Holding Fund

**Emerging further guidance from the EU allows the setting up of a Holding Fund into which JESSICA funds can be placed prior to investment in a UDF. This is relevant where UDFs have not been identified, but are expected to emerge in the programme period.**



## Introduction

The rationale for the Holding Fund is effectively for it to be a 'temporary mechanism to advance the JESSICA funding to the 'local level' before it is deployed into a UDF. Under the terms of new EU legislation, these advanced funds represents 'eligible or qualifying spend'. The use of a Holding Fund can therefore secure investment into an area prior to an eligible UDF or project being identified that requires JESSICA investment.

A further benefit of the Holding Fund is the income it generates before it is invested in a UDF. The terms of the advance into a Holding Fund include it being managed by a suitably qualified Fund Manager. The Fund Manager can receive a 2% fee for this work (based on the size of the Fund), any additional income generate by the fund can be used for 'Eligible expenditure'.

## Application to London

Using a Holding Fund is particularly attractive in London as there is a currently a lack of well developed projects that JESSICA could fund through UDFs or clarity over the current UDF landscape. In addition the income generated by the invested funds could be used to advance the programme or timetable of this project development work.

## Benefits from the Holding Fund Model

By adopting a Holding Fund within the JESSICA Structure for London, the following benefits can be captured.

- The Holding Fund will generate an annual return (on deposit) which, after a fund manager fee, can be used to support project planning costs.
- Secures ERDF investment into an area and prevents loss of eligible funding if UDFs (or projects) are delayed in being set up

- Provides certainty over intent by the public sector for other 'investors'.
- Reduces the pressure on project development so a considered and well planned approach to project development can take place
- Provides for a dedicated Fund manager function who is tasked with overseeing the deployment of JESSICA funds in the early years and managing the development of emerging investment opportunities with project delivery partners.

## Operating the Holding Fund

A Holding Fund must appoint a Fund Manager to administer the funds received, develop an investment plan (based on Operational Programme and regional strategy objectives), identify suitable investment opportunities and negotiate JESSICA investment s into a series of UDFs (and projects). It is crucial that the fund manager role is therefore empowered to develop propositions in conjunction with delivery partners.

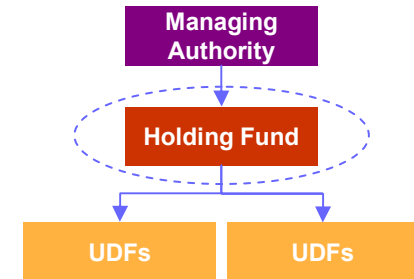
After considering the guidance on appointing a fund manager, the LDA consider the EIB is ideally placed for this role, for the following reasons:

- Directly appointed without OJEU competition.
- Core skill of the bank to manage funds and appraisal investment opportunities
- Operational remit is aligned to the economic development agenda

The LDA and EIB must develop a memorandum of understanding that can be accepted by the GLA and CLG as the next stage to setting up the Holding Fund.

# The Role of a Holding Fund

**We have defined further the role of the Holding Fund Manager and the need for a funding agreement to codify this role. We recommend the LDA begins the negotiation of this agreement as early as possible.**



## Specific Tasks Performed by the Holding Fund Manager

- Agreeing an overall strategy and investment policy for the JESSICA Holding Fund, for approval by its Executive Board, including criteria for the selection of appropriate UDF investments;
- Assistance with identification and appraisal of integrated and sustainable urban development plans considered central to a UDF's business plan;
- Agreeing and launching calls for expression of interest addressed to UDF promoters; appraisal and selection of UDFs in accordance with the guidelines agreed in the Funding Agreement or adopted by the Investment Board;
- Implementing approved investments in UDFs in accordance with guidelines established in the Funding Agreement and as approved by the Executive Board;
- Monitoring and reporting to the Executive Board on the performance of investments in UDFs;
- Assistance in establishing appropriate audit policies and procedures with the Managing Authority and other relevant authorities at a national and EU level;
- Defining the winding-up provisions of the JESSICA Holding Fund, including the re-utilisation of resources returned from investments in UDFs or, where applicable, left over after all guarantees have been honoured. There might be a possibility to unwind a Holding Fund structure after a UDF portfolio has been established and fully invested in;
- Negotiating and establishing contractual arrangements, including appropriate exit provisions, between the JESSICA Holding Fund and the UDFs;

- Assisting with the interpretation of the Regulations, in particular relating to eligibility of urban project expenditures and “integrated plans for sustainable urban development”;
- Organising and presenting at seminars and conferences, as well as the provision of training to intermediaries and other partners, on a recurrent basis, to help further develop JESSICA and the urban investment sector in London.

## Summary Recommendation

Based on our initial review of project ‘readiness’ for funding by an UDF or other mechanism, and the undoubted benefit of Holding fund returns being applied to project development, it would appear beneficial for the London JESSICA structure to include some form of the Holding Fund Concept.

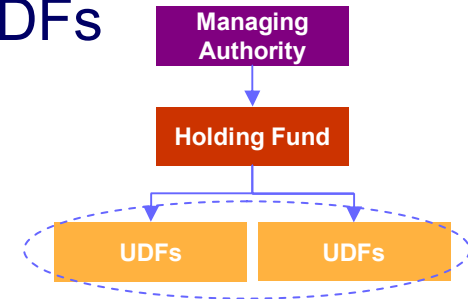
In taking this approach forward the partners need to address the following:

- Formalise the appointment of the EIB as ‘Fund Manager’ (in conjunction with the GLA and CLG) and complete negotiations around the MoU and ‘funding agreement’ to establish the Holding Fund.
- Set up a suitable governance mechanism to oversee the initial receipt of JESSICA funds and manage its investment into a series of eligible UDFs
- EIB to provide a fund manager function at the outset and possibly as part of agreeing the funding agreement for the Fund. The Fund Manager role will be defined within the funding agreement.



# The Investment Role of the JESSICA Structure in UDFs

**This section of the study explores the role of UDFs in the London JESSICA Structure. Setting up a Holding fund should ensure greater flexibility around the number, nature and remit of UDFs funded by JESSICA in London**



## How the JESSICA Structure Invests in UDFs

At the current time, JESSICA has the opportunity to invest in a number of different environmentally aligned projects (under the London Plan). Some of these are well articulated - for example Barking Power station - and others have a strong concept, but lack the robust financial data for an 'investment appraisal' by the Holding Fund Manager, a UDF or other funder.

Therefore, the role of the JESSICA Structure could comprise:

- Acting as a fund to support those UDFs investing in well defined projects that only require funding support and where project delivery partners display strong project development / management functions.
- Acting as a resource that draws projects together and develops them to the point, at which it can revert back to a 'true' UDF funding mechanism. This may require appointment of advisers, Project Managers and will need direction from an Executive Board to identify and push forward bundles of projects to turn them into UDF investment opportunities.

This is not a typical area of activity for a Holding Fund; however, it is clear from the level of project data and the current broad spread of public sector agencies, several project opportunities will not come forward in a optimum manner for a UDF unless the UDF (or its overseeing Holding Fund) takes a more proactive approach to developing bundles of projects to that a UDF (and JESSICA through it) can invest in.

On the next page, we review the specific requirements of the JESSICA Structure in backing a number of UDFs, how it will be 'governed and managed' and how it will have to work with a range of parties (especially in the early years) to develop credible investment opportunities for its funds.

## How Many UDF Investments Should JESSICA Make

The Holding Fund has the option of investing in either a single or several UDFs. The boxes below highlight the summary characteristics of each scenario.

In summary, based on the nature of projects reviewed, our commercial experience of the nature of these as investment opportunities, the likely delivery partners involved and the reaction of consultees, we have concluded that the Holding Fund should consider a multiple UDF approach.

This will allow the broadest range of stakeholder and projects to be engaged by the JESSICA Structure. The increase management of the Structure (by a dedicated Fund Manager) appears an acceptable impact for the benefits gained.

### One UDF for whole programme

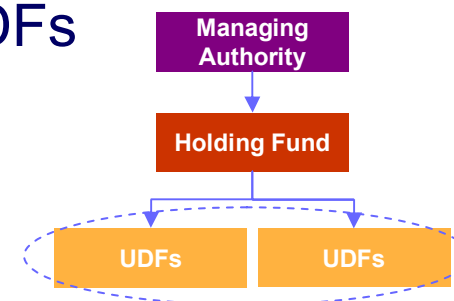
- Creates critical mass of funding to lever across the whole programme
- Simple for LDA in dealing with one delivery mechanism
- Will it have the expertise to deliver the range of projects across London?
- May not attract private funds attracted to certain themes / projects

### Multiple UDF's

- Range of expertise in delivery across the themes and projects across London
- Ability to market themselves to specific target investors
- Governance of UDF's could be cumbersome
- Range of projects could be at the margin and risks in income creation higher

# Governing the Structure and its Investments into UDFs

**Our review of the Holding Fund and UDF elements of the structure has highlighted the need for a governing body to oversee how the early stages of the JESSICA structure are invested.**



## Executive Board

As set out in previous chapters, the Holding Fund will require a fund manager to act as custodian and invest initial JESSICA monies from the EU. The JESSICA guidance does not set out any requirements for a 'non-financial' management role - this role would be focussed on proactively developing project opportunities with partners, drawing them together into suitable investment bundles within UDFs to be funded by the JESSICA Structure.

As is common across the economic development sector, a small 'Executive Board' is therefore required to set these practical tasks and, where necessary commission work or influence others to do so. In overview the Board's role should be to:

- Administer the Fund Manager's contract and be responsible for the investment decisions of the Holding Fund
- Draw up a clear investment policy for the Fund Manager, in line with the 'spirit' of the JESSICA initiative outlined earlier in this report.
- Consider UDF investment proposals for the Structure as prepared by the Fund manager in line with investment policy.
- Support the Fund manager through influence with public and private sector partners to develop investment opportunities for the Structure, including:
  - o Drawing complementary projects together
  - o Acting across public sector agency boundaries as part of the 'joined up delivery' agenda to drive project development
  - o Providing feasibility funding for project development work (sourced for the Holding Fund investment returns)
- Appraise and sign-off on UDF investments as they arise

## Make up of the Board

The make up and constitution of this Board will be the subject of some debate, a number of parties will be interested in influencing the development of investment propositions, and therefore it is important to strike an appropriate balance between satisfying market or commercial interests, with the need to achieve economic development objectives.

Therefore it would appear there is a role for the following types of organisation:

- Public sector
- Private sector funders / financiers
- Technical specialists, e.g. engineering firms

## Required Skill Sets

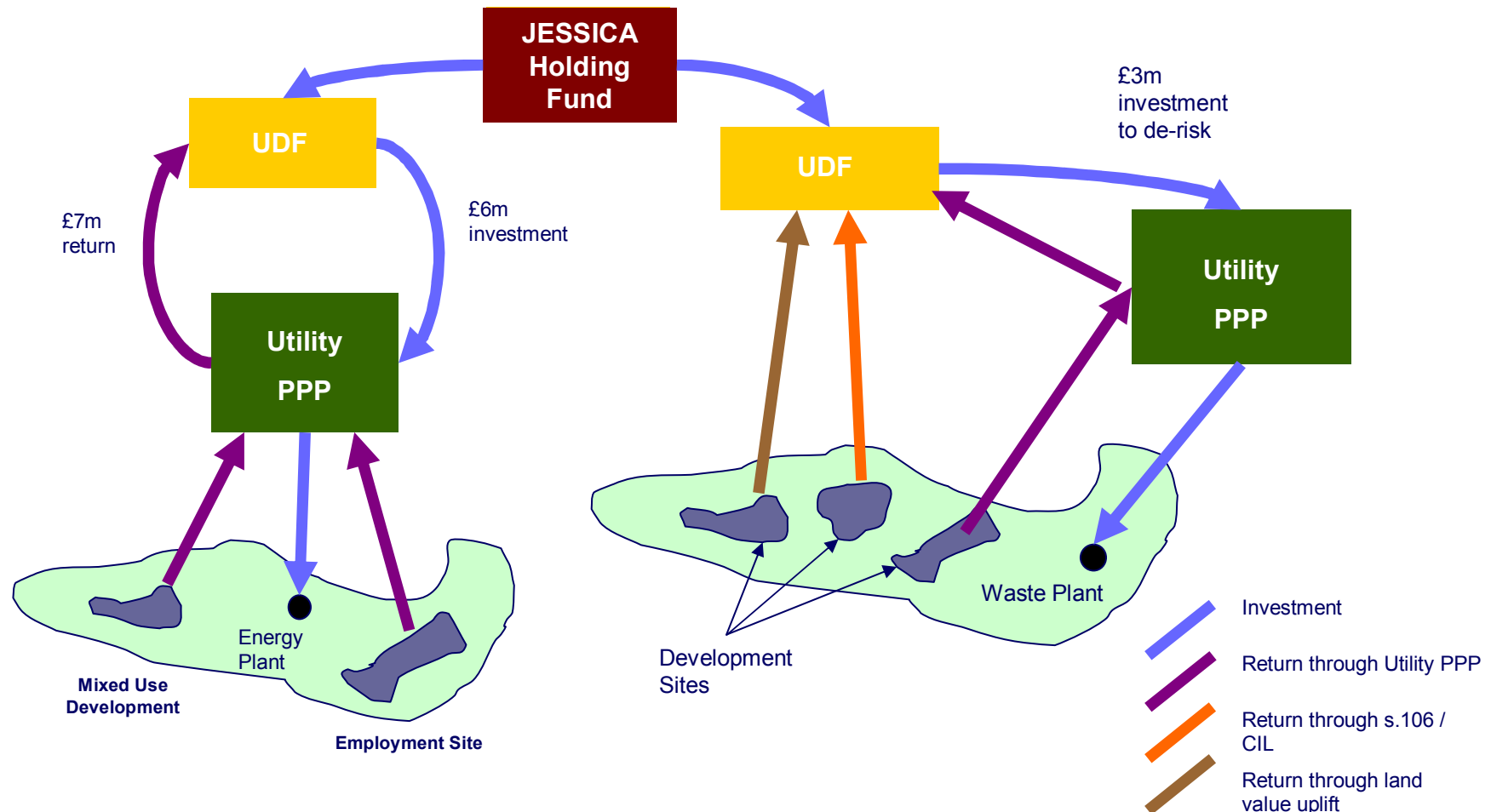
Incorporated within the above group, will be a range of skill sets that is important to a robust appraisal and delivery of investment. An overview of these includes;

- Deep understanding of the economic development drivers behind the ERDF / JESSICA initiative;
- Strong financial and commercial skills to develop a credible funding proposition
- Project appraisal skills to explore the detailed commercial and technical challenges within a project and set out the case for JESSICA

We provide further detail later in this section on specific resourcing requirements

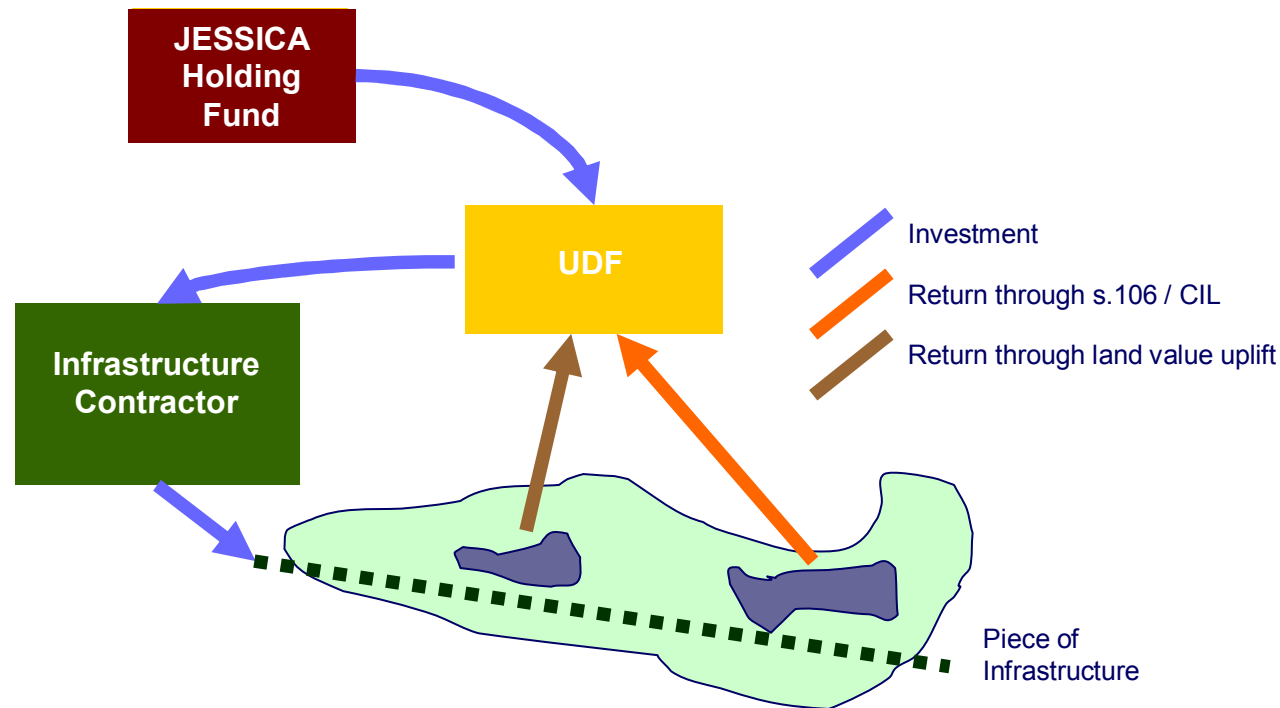
# Examples of the Structure in Practice

A UDF could make an investment with a view to capturing returns through a number of different mechanisms. The role of the Structure should be to 'place' its investments with UDFs in such a manner that they compliment existing funding and mitigate key risks that are current preventing project progress.



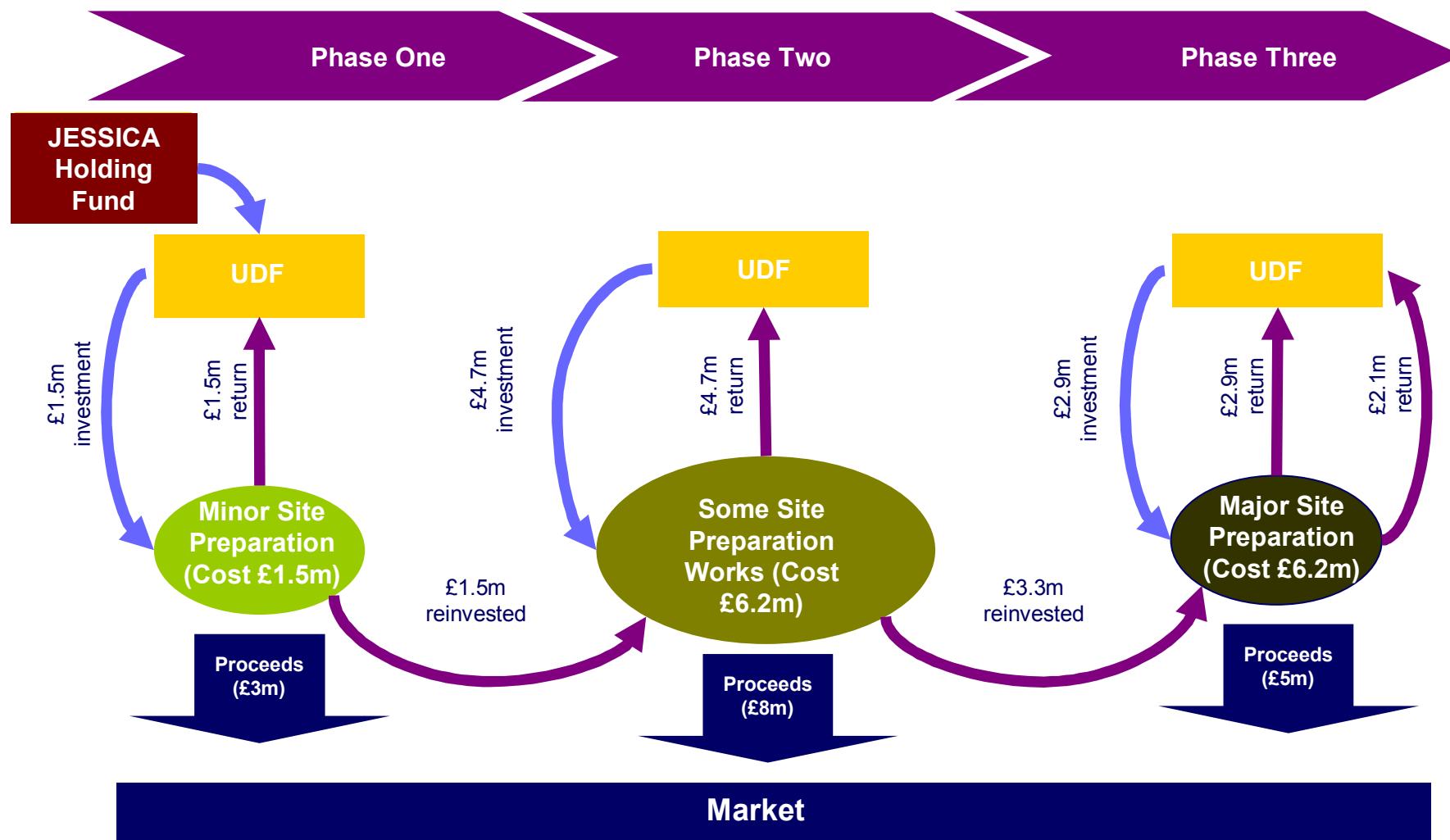
## Examples of the Structure in Practice

JESSICA could make an investment in a piece of infrastructure (through a UDF) that releases development potential across a number of sites might be captured through land value uplift through planning system or contractual relationships



## Examples of the UDF in Practice

A key benefit is the ability to recycle investment for future projects. The diagram below sets out a possible approach to a environmental land improvement scheme that recycles an initial investment through a series of funding rounds.



# Stakeholder Consultation

**This section of the study sets out the feedback from a number of areas of the market on the proposed JESSICA structure for London. Comments were sought on the makeup of the structure, its suggested activities and how consultees would interact with it,**

## Introduction

Having reviewed likely JESSICA projects and the possible approach to setting up a series of UDFs through which projects can be delivered, a process of wider stakeholder consultation was undertaken

The objectives of the consultation were broad;

- Raise the profile of JESSICA and provide clarity as to its use and the role it would play in the economic development landscape
- Set out the process for JESSICA whereby wider organisations could plan for adopting its use within their own delivery planning
- Capture other projects or activities that had not been identified through the project review process with the LDA
- Discuss the practicality or feasibility issues associated with the private sector engaging with the emerging UDF structure
- Highlight areas within the emerging structure that would have to be refined or more information provided if wider organisations were to participate in it.
- Understand the likely levels of support / investment / participation from various sub-sets of the private sector, including;
  - o Commercial Investors
  - o Specialist Infrastructure / Environmental Investment Funds
  - o Developers
  - o Wider Public Sector (e.g English Partnerships)

The following slides summarises the findings of the consultation process and provides an overview of how the UDF structure was revised to develop an approach that addressed (where possible) the concerns of consultees.

## Summary of Consultation Exercise

### Consultation on Project Activity

- Views on project delivery challenges
- Market risks and challenges to delivery
- Technical or other practical delivery constraints
- Investing criteria of wider organisations
- What target outputs / returns were expected

### Consultation of Structure

- Level of alignment to proposed structure
- Allocation of risks
- 'Flow of funding'
- Provision of guarantees or financial support
- Need for simplicity at the 'interface'
- Factors driving 'their' market

*"Is there a similar level of enthusiasm to adopt JESSICA amongst these wider groups, as exists within London's public sector economic development community"*

# Stakeholder Consultation: Feedback of Findings

Feedback overwhelming focused on the need for greater information on ‘investment opportunities’. There was a mixed range of enthusiasm to invest in a JESSICA backed UDF, which appeared to be based on an organisations view of the current global credit crisis.

## Project Issues

- Its all about the quality of the projects: without this the structure is academic. The current level of market analysis to support projects is poor.
- Where are the projects being sourced / driven from: hopeful that the fund should provide a single point of contact for development. Can anyone apply?
- JESSICA needs to stand behind early or uncertain project risk

## Delivery / Leadership Issues

- The private setcor need to understand that the Leadership and governance roles within the structure have been fully considered and allocated to an agency with the appropriate skills and capacity to effectively deliver a planned investment strategy
- Proximity to projects usually results in an incentive to drive delivery
- Ensure state aid been fully considered by the public sector and does not cause delivery delays

## Financing Issues

- A Holding Fund should provide confidence (and cash) to advance project propositions
- “Sometimes all that is needed is a guarantee”
- It is helpful to have access to both debt and equity, but UDFs must not mix this through investment
- Financing at a UDF level is difficult (prohibitively so?) for most of the private sector, due to the uncertainties involved in them.

## From the Private Sector

- Is the public sector the right organisation to lead a JESSICA UDF. Should they be adopting a strategy, influencing and monitoring role?
- Clarity is required on the skills provision to manage / operate a fund
- Long term private / equity infrastructure funds are emerging and view JESSICA as a helpful stimulus for the public sector



# Impact of Consultation Findings and Principles of the Structure

**We now set out how the consultation process has influenced the process of setting out a suitable JESSICA structure. Based on those finding and other detailed analysis, we set out the overarching principles for the Structure.**

## Impact of Consultation Findings

The following key highlights key impacts on the London JESSICA structure arising from the consultation process.

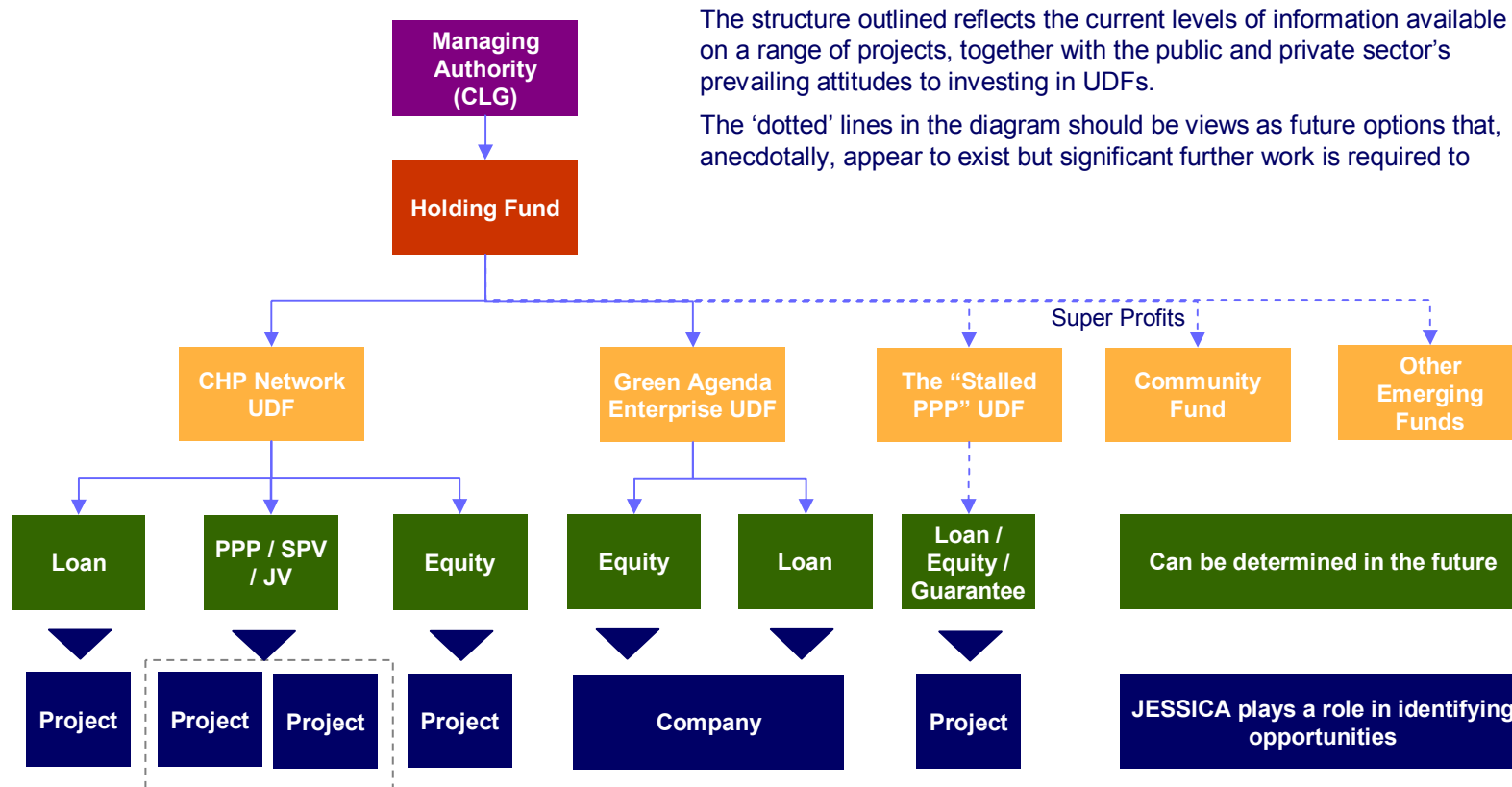
- The structure needs to be simple and have clear roles and responsibilities at each level, together with strong leadership by the public sector in its areas. The proposals for a Holding Fund Executive Board should help address this
- Commercial appraisal will be undertaken largely on a project by project basis, together these will be grouped to understand the overall risks and returns associated with a UDF. The Multi UDF approach will prevent investment appraisal from being too complex
- The nature of projects described are perceived by the private sector to require public sector funding support to move them forward. There is a need articulated by consultees for JESSICA to invest to secure the timetable or programme of these projects.
- There will be a wide range of investment priorities and criteria from 'external' parties and therefore flexibility and ability to have a number of investment opportunities (UDFs) is important so private sector can line up behind those projects/ UDFs most suited to the risk profile they understand.
- The current level of project information is poor and therefore the additional funds raised by the Holding Fund is a welcome step by the private sector in development project propositions.
- Varied views on the availability of private finance, however encouraging feedback from a number of funders that with the right structure and project information, funding can be raised.

## Emerging Principles of the Structure

- Establish a Holding Fund
- Set up an Executive Board to oversee early investment phases
- Multi UDF approach
- UDF investments based on linked projects reflecting:
  - Risk profile
  - Sector alignment
  - Geographic proximity
  - Economic development needs
- Private sector participation in UDFs and at a project level (though a JV / PPP or similar arrangement)
- Early UDF investments likely to be in
  - Barking Power Station Decentralised Energy
  - Associated 'catalysed' projects

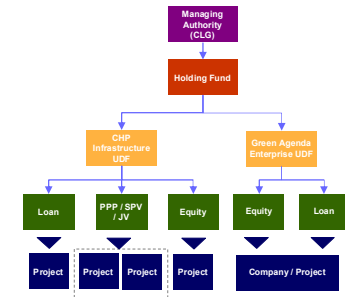
# The Proposed London Structure

The proposed structure for JESSICA in London is based on ensuring 'spend' targets can be met; securing or enhancing the scope of intervention; delivering 'quick-wins' and providing flexibility for the future.



# The Proposed London Structure

There appears to be an immediate role for JESSICA to invest in a UDF to deliver the Barking Power Station CHP project; plus draw together the delivery responsibility for associated projects. Other potential UDFs are emerging (as projects continue to develop); however further detailed work is needed to understand them



	Activity	Possible Participants
Current Opportunities	<b>Holding Fund</b> Set up initial board to govern receipt and initial investment of the JESSICA funds. Adopting an influencer / commissioner role to draw together early UDF investment opportunities	EIB / LDA
	<b>CHP Network UDF</b> CHP 'spine' network from barking Power station. This a relatively well defined 'investment bundle' around which a UDF could be quickly established. This appears to be an early win opportunity	LDA; LTGDC; Utility Companies; Commercial Finance; Developers; Operators
	<b>Green Agenda Enterprise UDF</b> Investment in projects similar to the Closed Loop and Power from waste businesses	Operators; Developers; Utility Companies; LDA
Future Opportunities	<b>The "Stalled PPP" UDF</b> Is there a bank of PPP deals that are close to completion that have been shelved due to the current global credit conditions effecting private sector finance raising?	Developers; LDA; Commercial Finance
	<b>Community Fund</b> Reinvest 'super profits' generated from other UDFs into projects generating little or no revenue. This is an emerging approach that should not impact JESSICA guidelines if the 'principle capital' of the fund is not diminished by this fund.	LDA (plus all community organisations in geography)
	<b>Other Emerging Funds</b> The Holding Fund must have the flexibility to set up new UDFs and divert funds from the Holding Fund into new opportunities	To be determined when UDFs emerge and signed off by Holding Fund

# Resourcing the ‘Structure’

**The table below sets out some of the key resourcing requirements and skills needed to ensure the appropriate deployment of JESSICA in the London structure.**

At this stage it is important to be clear of the role of UDFs traditionally in economic development and the specific requirements of this JESSICA Structure. The table below highlights the range of skills typically need to develop, appraise and deliver an economic development project – the highlighted ‘Investment Appraisal’ line is the area typically where a UDF would be active. However, the particular challenges of drawing together a range of projects into a suitable investment opportunity that has EU / ERDF targets and objectives will, we believe, require a wider range of capacity within, or available to, the JESSICA Structure in order for it to make UDF investments

As the proposals for the JESSICA structure continue to emerge and are refined, the public sector (LDA / CLG) must ensure these skill sets are present either within the Structure or are interacting with it.

Capacity Area	Nature of Capacity	Possible Provider
Finance	Able to assess the financial risks, returns and investment requirement, including defining the role that JESSICA plays in the delivery of a suite of projects.	Commercial Bank Financial Adviser
Technical	Ability to review the technical content of projects and perform technical due diligence and assess delivery viability and risk. Would also lead on the statutory issues, such as planning.	Engineering consultants Architects / QS
Delivery	Acting as the body that draws together all the project stakeholders and drives the alignment of objectives.	Public sector Engineering consultants (to outcomes)
Investment Appraisal	Able and authorised to provide an overall review of a project investment and make a recommendation to the ‘Holding Fund’	LDA Financial / Legal / Technical Advisers
Project management	Able to commission and contract the necessary delivery partners, monitoring the projects’ deployment	Project Management consultancies
Project evaluation	Ability to review project performance and its contribution to key targets	Project Management / Engineering consultancies

# Deployment Challenges to Resolve

**By way of conclusion to this section on how to deploy JESSICA in London, we now review the crucial issues that must be resolved between stakeholders if a JESSICA Structure is to be a success and effect measurable change through UDF investment.**

## Key Actions

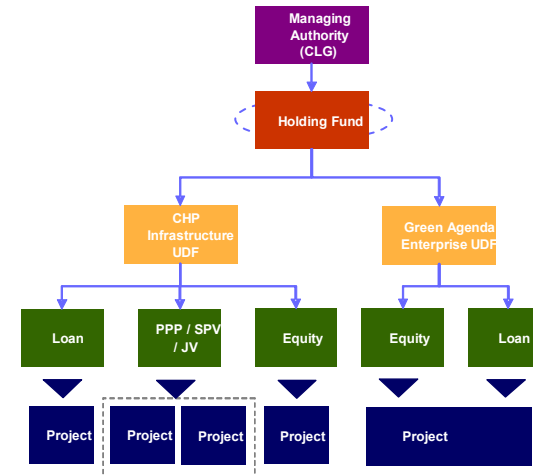
- Set up the Holding Fund
  - Formalise the appointment of the EIB as Holding Fund Manager
  - Negotiate and sign funding agreement so that funds can be advanced into the Holding Fund. As part of this process codify the role of the Fund Manager within the agreement.
  - Set out a series of investment policies/ criteria that build on the outline framework in this study and
- Set up an Executive Board
  - Confirm Holding Fund governance arrangements and participation
  - Appraise investment in UDFs and new project bundles
- Obtain relevant sign-off from GLA, CLG and LDA on the above approach and supporting contractual agreements.

## Addressing State Aid in the Structure

It is envisaged that the Holding Fund will only act as a vehicle for the transfer of funds to UDFs and ultimately PPPs and/or projects, rather than being a beneficiary of aid itself, and as such state aid should not be present at this level.

Also, as the remuneration of the fund manager will be at market rates then there will not be any state aid. At the level of the UDFs, State Aid will not exist if they and their managers or management companies are selected through open competitive tendering.

If, however, investment from private sector investors are made into the UDFs or directly into PPPs or projects on more favourable terms than ERDF or other public sector monies then state aid will exist at this level. Therefore specific consideration of State Aid issues need to be taken when a UDF investment is made.



## Matched Funding

The Operational Programme works on the basis that up to 70% of P3 funding allocations (c.€50m) will be deployed through a JESSICA structure. Assuming a 1:1 match funding, this equates to around €100 million of total funding being channelled into the Structure.

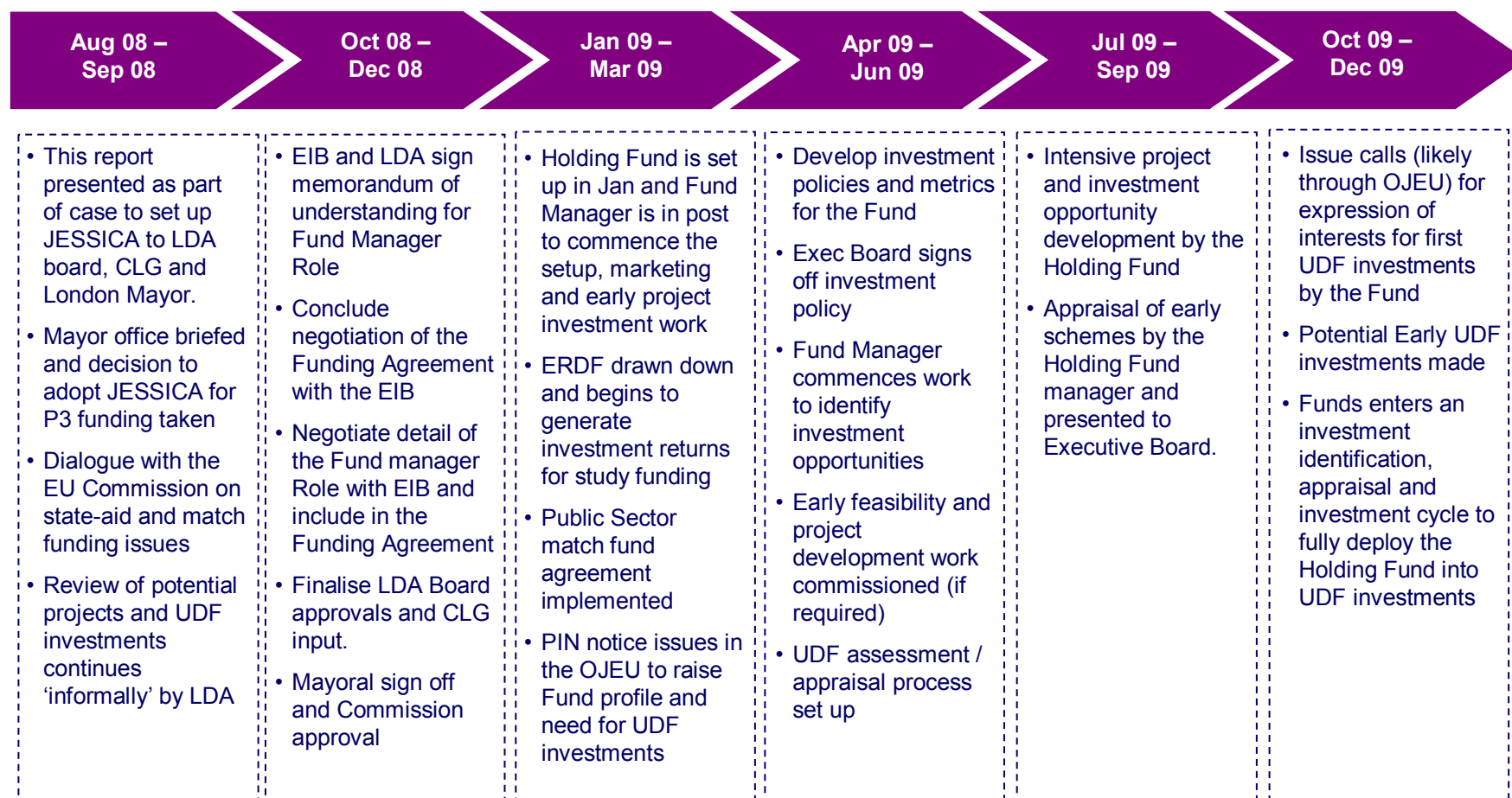
The LDA / GLA / CLG need to agree with the Commission a suitable approach to 'match funding', including what 'investment' in the Holding Fund qualifies as match. Guidance is needed on the following:

- Can land and buildings be included as well as 'cash', and if so, do they have to relate to projects that the JESSICA structure will invest in
- When should the 'match' be invested in to the Fund and if land / building assets are included what are the implications for timing of any valuations.

# Deployment Challenges to Resolve: The Timetable

**Below we set out the proposed timetable for deploying the JESSICA Structure up to it making its first 'call' for investments in UDFs.**

The following sequence is based on the LDA's and EIB's interpretation of the process required to secure ERDF funding into the JESSICA Structure and the necessary steps to obtain required approvals with UK public sector bodies (namely LDA, GLA and CLG) and the EU Commission to set up the Holding Fund ready for receipt of the JESSICA funds.



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# Findings and Recommendations

# Summary of findings

**There appears a strong case for pursuing a JESSICA Structure to support UDF investments in London. This conclusion is based on a detailed review of emerging project opportunities, how they align to ERDF programme and the prevailing landscape of public and private investment**

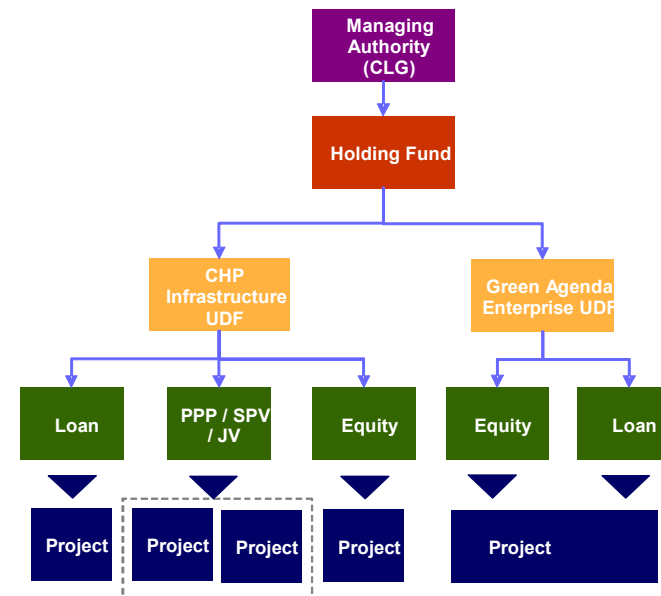
## Investment Activity

The objective of this study is to identify if a role exists for JESSICA to fund projects aligned to the economic development agenda and ERDF programme in London. The results of our work, in meeting these objectives, show that:

- A wide range of project concepts can be identified that meet ERDF programme requirements and have the potential to deliver against target outputs and outcomes. In our view sufficient potential of deal-flow is evidenced to justify further work
- A number of projects are close to being 'investment ready propositions', but there is a role for JESSICA to support and influence their final development
- A bundle of investment projects appears to exist around the Barking Power Station decentralised energy project. It is also likely that an series of local decentralised energy project opportunities will arise for JESSICA on the back of any investment in the Barking DE scheme.
- A Holding Fund should be set up to receive the c. €50 million as allocated in the Operational Programme from the ERDF Priority 3 budgets to secure this investment locally. Further national match funding of c. €50 million will also be placed in the Holding Fund. A Fund Manager (currently proposed to be the EIB) should then be appointed to over see the investment of the fund into a series of UDFs that provide aligned, qualifying projects to P3.
- An Executive Board, containing representatives from the GLA, LDA and CLG, together with other relevant stakeholder representatives should be appointed to govern the Fund and sign-off the proposals from the Fund Manager.

## Structure for Investing JESSICA in UDFs across London

The diagram below sets out the emerging proposal for a JESSICA Structure for London.



A number of key actions are required in order to realise this structure, which are outlined overleaf.

# Taking this Concept Forward

**This report has reviewed in detail the investment opportunities and deployment structure that could facilitate JESSICA investment into London. Below we outline key areas for further work if this concept is to be realised.**

## Next Steps

- Obtain stakeholder (led by LDA / CLG and GLA) approval to the proposals to divert funds into JESSICA and establish a Holding Fund
- Initiate the application to the EU to establish a Holding Fund and commence negotiations on the funding agreement to place ERDF monies into the Fund.
- Set up the 'Executive Board' to guide the Holding Fund.
- Appoint a Fund manager to begin the process of identifying future project preparation works, identifying investment opportunities and administering the funds
- Finalise criteria for the Fund Manager in developing investments that covers:
  - Meeting London Plan targets
  - JESSICA needed to secure or enhance a programme
  - Providing a return back to the fund (its not a grant project!)
  - Levers other public and private investment
- Review ongoing activities in other parts of the public sector and development market (particularly those exploring long term positions in a development site such as MUSCOs/ ESCOs) and commission work to 'plug' information gaps in potential projects so they (and the UDFs delivering them) can be appraised by the Holding Fund as investment opportunities. As part of this process, update the detailed business case for the Barking Power Station project due in early July

## Timeline to implementation of Key Actions

The following sequence of actions is based on the LDA's and EIB's interpretation of the process required to secure ERDF funding into the JESSICA Structure and the necessary steps with UK public sector bodies (namely LDA, GLA and CLG) and the EU Commission to set up the Holding Fund ready for receipt of the JESSICA funds.

- **August to October 2008:** Obtain approval from Key stakeholders such as the GLA, CLG, PMC and LDA Board for the establishment of a JESSICA fund
- **October 2008:** Identify suitable Holding Fund manager and agree memorandum of understanding
- **December 2008:** Conclude funding agreement with Holding Fund manager
- **January 2009:** Set up Holding Fund and publicise it within the economic development community and wider interested groups
- **February 2009:** Pay ERDF into Holding Fund
- **April 2009:** Set up an Investment Board to
  - Oversee Holding Fund activities
  - Direct the Fund Manager on the development and appraisal of new project investment bundles
- **June 2009:** Obtain approval from PMC for appraisal criteria for selecting UDFs
- **December 2009:** Issue call for expressions of interest to establish UDFs



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