URBACT II

JESSICA 4 Cities

How cities can make the most from Urban Development Funds

Greater Manchester contribution

August 2010

Connecting cities
Building successes

GREATER MANCHESTER CONTRIBUTION

1. Why Greater Manchester is interested in Jessica

The primary motivation for interest in Jessica as a funding method for Greater Manchester is the decline in the availability of ERDF funding. Over the programming period 2000-2006 to the 2007-2013 period we have seen a decrease of approximately 50% in the amount of ERDF funding (from €826m ERDF to €448m ERDF) which is available for the North West of England region (excluding Merseyside) and so a similar reduction for the city-region too. It is anticipated that this decline will continue into the next (post 2013) programming period.

The financial engineering models offered by Jessica are not a novel concept for the UK, examples of Asset Backed Vehicles such as Ashtenne in the North West and Blueprint in the East Midlands have served as models in the shaping of the Jessica initiative at the European level. The attraction of Jessica then, is the ability to recycle and so retain ERDF funding for urban development projects beyond the life of the ERDF Operational Programme itself.

The idea of a city-region level Urban Development Fund was also attractive to Greater Manchester and fitted well with the ambitions of Greater Manchester to develop as a city-region with devolved governance powers. To this end Greater Manchester sought, under article 42 of the General Regulation of the Structural Funds, a devolved allocation of funding to the city region. Although this proved not to be possible to implement, Jessica remained an attractive method for attracting funding specifically for Urban development to the city-region.

It is worth explaining that the North West of England is a large region both spatially and, with some 7 million inhabitants has a population larger than 11 EU Member States. The region is geographically large and diverse, with large rural areas of low population and two major and high density population centres in Manchester and Liverpool, as well as smaller cities like Preston and Carlisle. For EU Structural Funding purposes the North West is divided into two areas – Merseyside, which is a former Objective 1 area and now has phasing in status; and the Rest of the North West (RoNW).

Greater Manchester is the largest metropolitan area in the UK outside London and has a population of 2.6 million, making it larger than 6 EU Member States and is a major economic driver of the North West. It is made up of ten Local Authority areas: Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan which work together as the Association of Greater Manchester Authorities.

2. State of Implementation

Managing Authority Level

Jessica has been a feature of the North West Operational Programme for ERDF (NWOP) since 2006, when at the request of Greater Manchester partners, reference to Jessica and Jeremie was included in the operational programme. Since then development of Jessica has been slow (although this has been the case across the EU, and is not solely a North West or UK issue), although a Holding Fund – the North West Urban Investment Fund (NWUIF) – has been in existence since December 2009.

The creation of the Jessica NWUIF has had a double benefit for the North West, firstly in creating a £100m Urban Investment Fund (£50 million ERDF, £50 million match funding), secondly, the creation of the fund enabled the NWOP to meet the first, challenging N+2 target of the programme.

The £100 million fund is divided between Merseyside and the RoNW areas of the programme on a 60 / 40 split at the holding fund level. This means that £30 million of the ERDF comes from the Merseyside allocation and £20 million comes from the RoNW allocation. These allocations must be match funded within their respective geographical areas and also spent within those areas. Although matched within the NWUIF with resources from the North West Development Agency (NWDA – managing authority in the North West), when the funding is allocated to Urban Development Funds this match will be exchanged for project assets and funding.

Of the £20 million available for the RoNW, this is further divided into £10 million for Greater Manchester and £10 million for the RoNW outside Greater Manchester. In addition to this, a further £10 million of NWDA funding (non-ERDF) will be made available for the funding of projects in either area (but not Merseyside) which fit with the priorities of the fund. This means that within the North West Urban Investment Fund there is a total of £60 million available to bid for, split across two UDFs which will have an allocation of £30 million each. Each UDF will require matching funding or assets of a value of £30 million too.

The NWUIF is managed by an Investment Advisory Board made up of:

Senior NWDA (Managing Authority) staff:

- Steven Broomhead
- Ian Haythornthwaite

Sub-regionally appointed representatives:

- Sir Howard Bernstein, Chief Executive, Manchester City Council
- Cllr Phil Davies, Wirral Metropolitan Borough Council
- Cllr Keith Sedgewick, Preston City Council

Independent members:

- Tim Johnston, Partner, Amion Consulting
- Tom Russell, former Chief Executive, New East Manchester URC
- Steve Burnett, former CEO Royal Liver Insurance

Plus

- Deborah McLaughlin, Regional Director NW, Homes and Communities Agency
- Dominic Brankin, Government Office for the North West (Observer)

On the 29th March 2010 the European Investment Bank issued a call for tenders for interested parties to bid to manage a UDF in *either* Merseyside or the RoNW area (applications for both are not allowed).

<u>Partner Level</u>

As the call for proposals has now been issued partners in both Greater Manchester and the other sub-regions in the North West, outside Merseyside are now in discussion about potential applications. It is intended to hold a bidders briefing event for parties who may be interested in this process on the 8th April, however at the time of writing no further information was available about this.

As the process has only just begun and is commercially sensitive no information can be provided in this report, however more may become available after the closure of the call for proposals on the 23rd April 2010. It is likely however that this project will have closed before significant information about detailed operation of Jessica in Greater Manchester and the North West of England can be provided.

The RoNW UDF allocation is also further complicated by having within it separate allocations for Greater Manchester (£10 million ERDF) and the other NW Sub-regions (£10 million ERDF) which must all be managed as one Urban Development Fund

3. Main problems – criticism – considerations on the implementation of Jessica

It seems sensible to look at the issues that have been encountered in developing a Jessica programme at two levels, firstly at the EU level, in terms of some lack of clarity over the operation of Jessica schemes, and also at the City-region (Greater Manchester) level to see the impact of such a lack of clarity at EU level and also differences of opinion between the Managing Authority and Greater Manchester.

<u>EU Level</u>

Much of the difficulty at this level is likely to be covered elsewhere in this report however there are a number of issues and questions which have been raised in the NW England, which have also been echoed by other partners in the Jessica for Cities project and which have also been formally raised with the European Commission by the lead partner of this project.

These questions tend to be of an operational and technical nature, however they are also fundamental to the operation of Jessica at an EU level.

These questions have included issues concerning the State Aid implications of returns to private sector partners in an Urban Development Fund; ownership of land and assets which are placed into the UDF as matching funding; the re-use of resources and what requirements apply to this; who will be considered the final beneficiary of the UDF / ERDF component of the UDF; how state aid impacts on the operation of Jessica in general, but also in non-assisted areas – can a Jessica programme realistically operate in such areas; how to balance the need for commercial returns against wider regeneration priorities and requirements.

Some of these concerns have been addressed by the European Commission and the European Investment Bank, however we understand that there will be a new guidance note issued this year from COCOF which will finally clarify a number of issues around the implementation and operation of Jessica at an EU level.

The paragraph above perhaps best illustrates the problems and frustrations in developing Jessica across the EU – the initiative was first proposed by the European Commission in late 2005 or early 2006 and yet nearly five years later we are still awaiting guidance on how exactly the initiative should work. There is obviously a need for clear guidelines for a complex operation which will need to be able to work in the different economic and legislative environments of 27 Member States, however it would be helpful to have such guidance in place at the launch of an initiative rather than having to try to understand the regulatory framework of the initiative while developing programmes.

Partner level

This lack of clarity has been equally frustrating in trying to develop responses to Jessica at the level of City-region. Greater Manchester has been instrumental in securing a Jessica initiative for the region – without our intervention there would not have been the facility for Jessica within the NWOP – and also held a seminar with representatives of the EIB to discuss Jessica in November 2007[1] to try to get an early understanding of how Jessica might benefit Greater Manchester.

This seminar led to initial thoughts of using existing Managed Workspace and Employment Land programmes and projects as Jessica schemes which would allow an initial ERDF investment and allow subsequent investment into non-ERDF activities. It was not clear at this stage however, which parts (if any) of the NWOP would be used for Jessica, and so it was very difficult to hold meaningful discussions with representatives of the private and public sector who might be interested in developing "Jessicable" projects beyond basic discussion of how Jessica was expected to operate and the sorts of projects which might generate appropriate returns. This issue has also made it impossible to hold Urbact Local Support Group meetings in Greater Manchester – we have not had enough clear information available to be able to interest potential partners (either public or private).

Most of the areas of the United Kingdom have a preponderance of strategic development documents and the North West and Greater Manchester are no different in this respect. For this reason it was not felt to be necessary to create separate and specific Integrated Programmes for Sustainable Urban Development, rather that existing strategies could become IPSUDs for the purpose of Jessica. While this approach has spared the writing and creation of yet another strategy, it has meant that there has been a lack of focus for Jessica activities in the region other than the selected measures of the NWOP.

The two measures of the NWOP selected for the Jessica initiative are:

3.2 – Developing high quality sites and premises of regional importance;

4.3 – Supporting employment creation for areas of regeneration need;

which are sensible and relevant measures within which Jessica can function. However, a criticism that has been levelled by partners at this approach, and especially by partners in the major metropolitan areas, is that this approach is too generic. Measure 3.2 for instance contains 36 sites of strategic regional importance for development, however not all of these will be suitable for Jessica investment and not all of them are in urban areas. This lack of a specific Jessica focus has made it almost impossible for

[1] 12th November 2007, Jessica seminar with Frank Lee and Brian Field

partners in the NW England to come up with specific and strategic responses to the Jessica initiative until the issuing of the call for tenders by the EIB in March 2010.

There have also been a number of issues which have been the source of significant discussion at the regional Programme Monitoring Committee meetings.

Recycling of resources

This has been a major concern for all sub-regional partners. Until discussions at the Investment Advisory Board it was not clear where Jessica returns would recycle to – the UDF or the Holding Fund. At the Managing Authority level this was perceived as being an issue for Merseyside more than elsewhere as the view was that Merseyside would wish to protect funding allocated through phasing-in status for as long as possible.

The real motivation behind this concern however, was a question of motivation to have or become a UDF and applied equally to all interested parties, and can be summed up simply in that without a guarantee of returns recycling to the UDF there is no incentive to become a UDF at all.

Discussions with NWDA had indicated that the intention would be for investment returns to go back to the Holding Fund for redistribution, which would with either be to the originating UDF but could also be a UDF elsewhere in the region.

From the point of view of a UDF which will take the burden of risk in an investment as well as the risks associated with ERDF compliance and the burden of meeting ERDF regulations, if any returns could then recycle to another UDF then there is no incentive to take the initial risk and burden of the ERDF requirements – it would be more sensible to wait for a later round of UDF tendering.

This issue has now been addressed by the Investment Advisory Board and the tender documentation now allows for a ten year period of operation of the UDF before returns begin to be paid to the Holding Fund. This allows for some certainty from the point of view of fund management in terms of time scale for investments and thus promotes the development of a portfolio of investment projects, not all of which will have to comply with ERDF regulations and requirements.

Specific areas for investment

Another area of concern for Greater Manchester, and the source of significant discussion in the region was the need to target the limited resources of Jessica at appropriate urban areas. The large metropolitan areas understandably felt that targeting within the large urban conurbations of the region

(Greater Manchester and Liverpool / Merseyside) would bring the best results and ensure targeting of limited resources in specific areas. This view of course was not shared by other sub-regional areas, which although not predominantly urban do have urban areas within them. This view was also not shared by the managing authority, which has a responsibility to invest in the entire region and not just pockets of it.

These discussions have resulted in the tender documentation having specific amounts of funding being reserved for Greater Manchester and other parts of the region (in addition to the specific phasing-in allocation for Merseyside), which is a workable compromise to ensure targeting of resources without excluding areas from access to Jessica resources.

4. Additional Concerns

There are a number of additional concerns which are shared by most partners in the NW, mostly of a technical and operational nature, to do with:

- the nature and scale of ERDF outputs required by Jessica – are these realistic for a new way of working with ERDF?
- ERDF Clawback – if outputs or other ERDF performance requirements are not met how will ERDF clawback work? Will this come from the project (which is expected to repay the ERDF anyway), will this come from the UDF (which again is expected to repay investments to the holding fund) or will this come from the Holding Fund (which will have an impact on the sustainability of the fund, in effect penalising the holding fund for project level non-performance)?
- Should investments fail to generate the expected return will this be regarded as non-performance, and if so how will this be dealt with?
- If there is no interest in Jessica in the current economic climate will it be possible to return Holding Fund resources to the NWOP?
- Is it feasible from a State Aid point of view to have differing rates / periods of return for private and public investors in a fund?
- How will UDFs balance the commercial returns required by Jessica with the more economic development and socially focused outputs and outcomes required by ERDF?

It is hoped that many of these questions will be answered either in COCOF notes or through the development of UDFs in the region, however this does once again serve to highlight perhaps some of the difficulties in developing the Jessica initiative – that we are still in a process of trying to clarify how it will operate even after such a lengthy period of discussion and development.