SCOTLAND EUROPA

EU ALERT

Subject: **Regional & Enterprise Update**
Date: 17 February 2009
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Ref: 17-02-10/r&eupdate

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European Economic Recovery Plan

At the end of November 2008 the Commission outlined its proposals for a European Economic Recovery Plan which was approved by the December Council. The plan has a number of interesting proposals for amendments to Cohesion Policy regulations which could have a significant impact if utilised by Managing Authorities. The plan has also been accompanied by various Communications and regulations.

The main objective of the Recovery Plan is to accelerate payments to Member States and to facilitate access to the Structural Funds. This translates into two types of measures: In the short term this means measures that seek to "save jobs" while the second measure of "smart investments" hopes to yield higher growth and sustainable prosperity in the longer term. The desire is that this will help speed up project implementation on the ground and inject confidence and dynamism into the European economy.

Mainly complementary not additional funding

The Commission has identified that €347 billion is available for the 2007-2013 period for investing in the real economy. Despite the press coverage received at the time, this is not new funding, but in the main, monies designated for the structural and cohesion funds for 2007-13.

It is proposed that some areas will receive some additional funds such as TEN-E (€4 billion is reserved for energy interconnections) as well as ICT Infrastructure (€1 billion) investments which are to be made in 2009/10. To make this happen, the Council and Parliament will need to agree to revise the financial framework, while remaining within the limits of the current budget.

Therefore, the main intervention is in fact the additional flexibility given to the regulations governing the use of funds.

Communication on Cohesion Policy

Through the accompanying Communication on Cohesion Policy, Member States and Managing Authorities are encouraged to spend money in certain areas, deemed to help with economic recovery, such as:

- Developing national flexicurity strategies (the UK is deemed by academia to have to lowest levels of flexicurity in the EU).
- Addressing skill mismatching

- Increasing the leverage of EU investments through: JEREMIE and JASMINE by substantially increasing their financial and technical assistance in order to encourage these initiatives to get up and running; and by proposing amendments to the regulatory provision affecting JEREMIE. The Commission has also proposed a 2020 fund for energy, climate change and infrastructure to fund equity and quasi-equity projects, which will be done in collaboration with the EIB.
- Addressing key long term challenges for SMEs (such as low carbon technology, eco-friendly products, production techniques)
- Reducing regulatory and administrative burdens for business.
- Enlarging the scope of actions in the ERDF Regulations affecting energy efficiency and renewable energy in housing in favour of low income households (COM(2008)838 published 3.12.08). This may require Managing Authorities to request amendments to their Operational Programmes.
- To make better use of and to maintain national commitments to research and innovation despite less liquidity.

  The proposals for targeted legislative amendments can be characterised as follows:

- Measures to *improve cash flow* of the public authorities charged with delivering the national and regional programmes. These provisions include an additional tranche of pre-financing in 2009 and measures that could accelerate the reimbursement of expenditure incurred under major projects and within the framework of state aid schemes. The Commission has committed to simplify the treatment of advances paid to beneficiaries in the form of state aids. In practice, it means that the state aid advances paid to the beneficiaries could in theory reach 100% of the aid, while respecting other conditions. Another significant amendment relates to the final eligibility (or closure) date of the Programmes under the 2000-2006 programming period, which the Commission has suggested could be extended for a short period. The increase in advances for programmes should add €6.25 billion cash flow to Member States;
- Clarification of provisions facilitating the launch of *financial engineering* instruments with a view to accelerating the use of access to finance measures;
- Simplification of eligibility rules in relation to broadening the use of *flat rates and lump-sums costs* for certain overheads (e.g. shared cleaning and security services in business parks) to allow public authorities to prepare projects and measures more quickly. This will involve a modification of Article 56 of the general regulation on the structural funds.

Scope for Extension to the 2000-2006 Scottish Programmes
The UK Government, led by BERR, has put the case forward for extension for 12 out of a possible 45 Programmes from 2000-2006 in the UK using the extension amendment. All 12 relate exclusively to the devolved administrations and are awaiting permission from the Commission on whether this regulation can be used.

The option to extend is perhaps more attractive to non-Euro countries like the UK where the Sterling has performed poorly, leading to larger surpluses in the old Programmes than would have been envisaged at this stage. Pending the Commission's decision, there is potentially an opportunity for some existing Scottish projects to be extended up and till 31 March 2009 with monies gained, re-ploughed into additional supporting economic recovery activity.

Extending the life line of projects in this way clearly has a knock-on effect on the auditable life of a project, and as such, should only be of interest to strategic projects, where the opportunity cost out-weighs this additional burden on the part of the project partners as well as the Managing Authority.

Scottish JESSICA Initiative Feasibility

Another positive side effect of the regulatory flexibility presented by the Economic Recovery Plan, in the context of the financial engineering initiatives, (under the actions affecting the ERDF regulations) is the proposals that make the use of housing and land as equity permissible, along with the amendments to make renewable energy in housing an eligible activity. These amendments now make the utilisation of JESSICA (Joint European Support for Sustainable Investment in City Areas) in Scotland much more feasible, as not being able to use land or housing as equity was a major barrier for public sector involvement under the prior rules. For those of you in need of a recap on JESSICA, it main feature is that it provides an alternative to the traditional ERDF grant funding for individual projects and instead offers a combination of loans and financial guarantees to part fund integrated urban development plans. The Scottish Government have recently set up a working group to oversee its feasibility in Scotland. The group will conclude their recommendations by October in order to put proposals to the relevant PMCs.

Energy Regulation on Economic Recovery

An additional €4 billion has been identified for energy interconnections under the European Economic Recovery Plan. A Regulation was introduced by the Council and Parliament on the 28 January 2009 specifically to deal with the contribution needed from the energy sector for Europe's economic recovery.

The Regulation outlines how they will imminently spend €3.5 Billion on the following activity:

- Gas and electricity interconnection projects (EUR 1,750 million);
- Offshore Wind Programme (EUR 500 million);
- Carbon Capture and Storage (EUR 1,250 million).

Potential projects have been identified based on their particular importance to security of energy supply within the Community; whom are in a position to progress substantially with their development in 2009 and 2010; and are considered of strategic importance.

The Regulation was accompanied by a press release which announced that Scotland could benefit from involvement in three projects (out of 27): North Sea Grid (involving partners from Germany, Netherlands, Ireland and Denmark worth €150m); Aberdeen Offshore Windfarm (involving Aberdeen Renewable Energy Group for €40m); and as part of a Carbon Capture and Storage programme for the UK with Logannet in Fife (worth €250m but this also covers: Kingsworth, Tibury and Hatfield in England).

Links for Further Information:

- A European Economic Recovery Plan
- Cohesion Policy: investing in the real economy
- Press Release 28/01/09: European Commission: investing today for tomorrow's energy
- Press Release 28/01/09: The Commission proposes € 5 billion new investment in energy and Internet broadband infrastructure in 2009-2010, in support of the EU recovery plan

- New energy regulations: establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy

London's JESSICA Experience
Scotland Europa recently attended a presentation in Brussels by the London Development Agency (LDA) on their work in developing their JESSICA initiative. London's experience may be of particular interest to Scotland, given the possibility of incorporating the initiative into our own ERDF Programmes. The LDA, along with the Welsh Assembly Government, have got the furthest within the UK in going down this route. However, the whole programme has yet to be signed off by the Mayor and Central Government.

London's 2007-13 total ERDF programme is worth €182M and the LDA have ring-fenced €50M from the Programme's priority 3 – Sustainable Places which is worth €73M. They anticipate that a further €50M will be leveraged into the initiative which will focus on environmental infrastructure for sustainable economic development. The LDA anticipate that much of JESSICA's activity will centre on the London docklands and London City Airport area.

Proposed JESSICA structure
The LDA has set up a Holding Fund structure to co-ordinate and manage JESSICA. This will be based on the European Investment Bank (EIB) acting as the Holding Fund manager, with an Investment Board overseeing. A Memorandum of Understanding has already been signed with the EIB. With the EIB as the Holding Fund manager, there was no need to put this out to open and competitive tendering. There is no cost to the LDA in this area.

The Holding Fund itself is based on ERDF monies and matched by equity from allocated from Land and Buildings (this has been confirmed as permissible by the Commission). Funds would then be allocated as Urban Development Funds (UDFs) through equity, loan or guarantee. It is hoped that this will then attract other investors (private or public) to create PPPs or Urban Development Projects (UDPs).

JESSICA is seen to offer something between a grant (deemed to be high risk) and a more commercial option, which would have a clear risk profile, and likely investors. The 'green technology' market is deemed to be somewhere in this middle ground.

Lessons Learned
The challenge for the LDA has been to develop the Holding Fund to compliment with ERDF Priority – Sustainable Places. Deloitte was commissioned in early 2008 to undertake an evaluation of the viability of the programme. Their findings indicated that there was sufficient 'deal-flow' to meet ERDF requirements. Other key findings of the LDA on developing a JESSICA initiative include:

- The 'rulebook' for JESSICA has not yet been written, allowing greater scope for suggestions / ideas from regions. (DG Regio are open to this)
- Getting the right balance for the JESSICA budget (not too big or small)
- Must be deliverable by 2015. If money has not been spent once by 2015, it is lost from the holding fund
- Consideration of Investment Board membership is needed – requires technicians / specialists and not necessarily politicians
- The study (such as the Deloitte one) is not necessary to proceed with JESSICA. Although regions would be advised to learn lessons from other

studies commissioned. The Deloitte study has a 'checklist' of useful questions to ask regarding JESSICA

Next Steps

By summer 2009, the LDA hopes to have finalised a funding agreement with the EIB, set up a holding fund and gained approval from the London mayor and national government for establishing a JESSICA fund.

By the end of 2009, the intention is to have paid ERDF money into the holding fund, set up an investment board, finalised the investment policy and issued calls for expression of interest to establish the UDFs.

Territorial Cooperation

Scotland Europa are keen to work with members interested in the Territorial Cooperation Programmes, otherwise more commonly known as INTERREG. Currently, all the IVB Programmes eligible in Scotland either have calls open or are about to open in the next few weeks. With some priorities becoming increasingly subscribed, the Scottish Government Structural Funds unit have set up a Scottish INTERREG network whose objective is to increase Scottish participation in these Programmes. Having met on the 17 January 2009 for the first time, the group has representatives from Scotland Europa, East of Scotland European Consortium; Highlands and Islands European Partnership; South of Scotland Alliance; West of Scotland European Forum; as well as the national contact points from the Programmes. The Scottish Government are currently looking at the best ways to engage with colleges, universities and environmental organisations.

The Cross-Border IVA Programme between Ireland and Scotland are organising an event in Belfast for the upcoming Creative Industries Call. The Programme is seeking to appoint a Lead Partner, with Project Partner(s), to develop, manage and deliver the Creative Industries Theme of Priority 1.1 - Co-operation for a more sustainable cross-border region. Organisations interested in this work are invited to attend an information event on Wednesday, 4 March 2009 in Belfast from 10:30am to 12:30pm. The closing date for the receipt of completed tenders will be 3.00pm on 27 March 2009.

To attend this event, please register with Elizabeth McNeil at: elizabeth.mcneil@scotent.co.uk or telephone 00 44 (0)141 228 2667.