

GROW MONEY GROW

Jessica is a model – no, not that kind of model. It's the name for a new way of funding regeneration in the EU, using the cash as an investment. It's certain to be a hot topic at Mipim, so here's your chance to swot up. By **Stuart Macdonald**

ON THE FACE OF IT, THE STYLISH FRENCH RIVIERA resort of Cannes and the British sea-faring bastion of Bristol don't really have too much in common beyond their coastal locations. However, the word on the regeneration grapevine is that the topic that will set tongues wagging at this year's Mipim property extravaganza in Cannes actually began its life in the British West Country. So what will the name be on everyone's lips? Jessica.

"Jessica is the talk of the town just now – certainly in my world at least," is the verdict of Igloo chief executive Chris Brown. According to Mike Atherton, regeneration director at consultant PricewaterhouseCoopers: "Jessica is a fundamental shift in regeneration in the UK and across the EU." So what is it?

Jessica – which stands for Joint European Support for Sustainable Investment in City Areas – is an attempt by the European Commission to get more bang for its buck; more oomph from its euro (see "How will Jessica work?", right). It plans to spend 308bn over the next six years across the EU, mainly in eastern Europe but with 9.4bn coming to the UK. However, it has high hopes that the Jessica approach will allow urban regeneration cash – roughly 90bn in total – to go much further than it has done before and attract matching amounts of private capital.

"We will be moving away from the traditional grant model to treating funding as an investment where you generate a return," says Atherton. "The key difference is that you can reinvest these returns. The other interesting aspect of this is that international financial institutions such as the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) could get much more involved in UK regeneration. They are massive providers of relatively cheap funding and have a definite appetite for more."

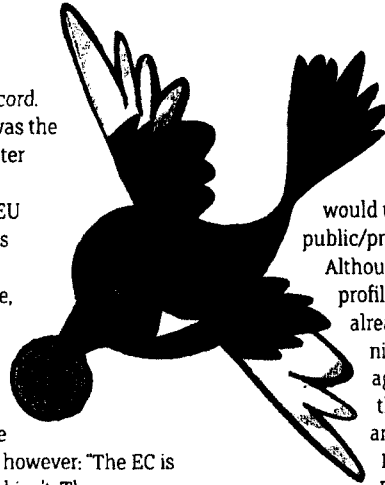
This is where Bristol comes in, with the signing on



6 December 2005 of the Bristol Accord. This grand but woolly document was the centrepiece of deputy prime minister John Prescott's contribution to the UK's six-month presidency of the EU and effectively laid the foundations for Jessica.

Despite this high-level patronage, Atherton is the first to admit Jessica has not exactly burst onto the European regeneration scene. "Jessica's profile is not yet as high as it could or should be," he says. There is good reason for this, however. "The EC is keen to sort out what Jessica is and isn't. There are no rules just now and the EIB will take a couple of months to sort this out and then start to push it."

"Pushing it" will entail a roadshow around the EU in March and April – possibly starting at Mipim. "So people need to be thinking now about the sort of projects they would want to do through Jessica," Atherton adds. "There is no sense in risking missing the boat. The key is to get Jessica sold to local authorities



as they will be the driver on this with the ideas for programmes. People need to decide, for example, what investment vehicles they would use – should they use existing public/private partnerships or new ones?"

Although Jessica has kept a relatively low profile in the UK, these questions are already being considered by most of the nine English regional development agencies as well as Scottish Enterprise, the Wales European Funding Office and the Department of Finance and Personnel in Northern Ireland. Iain Derrick is international policy manager at One NorthEast and he is enthusiastic about what he has heard about Jessica so far. "We are consulting on how to use European funds just now," he says. "This will then give us a much clearer idea of the proportion of European funding we would use for Jessica."

The projects that Derrick and One NorthEast are considering using Jessica for are just the sort of ►

HOW WILL JESSICA WORK?

The aim of Jessica is to allow European funding to be used by "managing authorities" – in England this is the nine RDAs – to "leverage substantial amounts of investment into [urban] areas in need of social cohesion and to speed up their transformation".

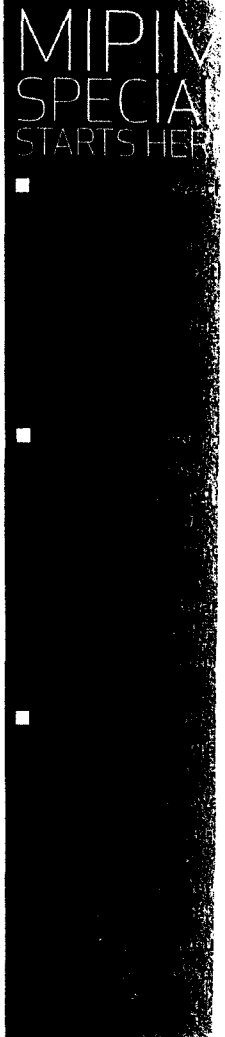
The idea is that these funds will be invested in a particular delivery

vehicle, such as an urban regeneration corporation, with a specific urban renewal programme. This public funding will at least be matched by private equity from the EIB, CEB and other banks.

The expectation is that these delivery vehicles will then "at least recover their investment" over time. Mike Atherton at PwC says annual

returns may need to be as high as 20% to interest the private sector.

RDAs will have two choices on how to invest their European funds. They can either ask the market for investment ideas and select one or more to back through a public-private delivery vehicle. Or they can pass funds to the EIB, which will invest them on their behalf.



► areas in which they have always spent European money: physical infrastructure; information and computer technology; and economic development. The only difference will be that once the RDA has released the funds, this won't be the last it sees of them. It will expect a return that it can then reinvest elsewhere.

This leads Derrick to point to another reason for his enthusiasm for Jessica: after 2013, it is unlikely that the EC will give any more urban regeneration funds to the UK. The drift in funds to newer EU members in the East has already begun. Between 2000 and 2006 the North-east of England received £500m from the EU. For the next seven years, this figure will fall to £240m.

Derrick says he has already been in contact with the EC to ensure that the RDA will be able to adapt its future projects to use a Jessica model once it is up and running. He adds that, although it is unlikely this would be before 2008, he is not the only one planning for the new kid on the block. "A number of RDAs are

JESSICA IN ACTION

Here is how Jessica could be used in the UK: Blueprint is a PPP that was set up in May 2005 with cash and assets worth £20m to allow it to invest in regeneration projects across the East Midlands. Regeneration fund Igloo provided £10m cash, while the East Midlands Development Agency and English Partnerships each provided sites and properties worth £5m. Construction began in December last year on the first of its projects, Nottingham Science Park. It has further projects planned to begin this year in a town centre site in Derby's Cathedral Quarter and in St George's in Leicester. Both will be mixed-use residential and commercial.

Nick Ebbs is Blueprint's chief executive: "This is definitely the sort of stuff that I would imagine the EC would be interested in. This medium to longer-term regeneration is the sort that the mainstream market won't normally provide due to the length of time you have to wait to get significant returns."

including this as a hook in their operational planning to allow them to use it at a later date," he says. "Most are looking at Jessica as part of their schemes."

Igloo's Chris Brown says the private sector is also licking its lips. German banks such as KfW are apparently eyeing large regeneration and infrastructure projects in Romania and Bulgaria: "This is where some of the real big-money interest will be."

He adds that although there are still a number of big regeneration projects in the UK, the potential for achieving large uplifts in value is far less than in Bucharest or Sofia. "In the UK you are more likely to have a North-west Jessica investment vehicle or a North-east one that invests in projects across the region than something that would be purely project-based," he says. This is already the approach that Igloo takes. "We would be looking for a 50/50 [ownership] split – from our point of view that is how these things work best. If it did come off, it could lead to a step-change in regeneration funding in the UK and across Europe."

What Derrick and Brown need now is clarification from the EC on precisely what the rules will be for Jessica. In order to do this, the EC has asked the EIB to run the Jessica programme. It in turn has commissioned PwC's Atherton to conduct a study of how Jessica could best work in the UK. Atherton presented his initial findings at the end of last month. "We highlighted a number of things in our report including the question of state aid, and the levels of return that will be needed to interest the private sector," he says.

"Jessica has to do something that the private sector can't already do, otherwise it won't attract any private sector partners. For example, it could provide pump-priming investment through infrastructure; or it could take a different [more relaxed] view on risk on some harder and more deprived urban areas."

He then dangles a carrot for developers and housebuilders: "Housing has traditionally been excluded from EU funding in the UK. But with the rise of mixed-use developments, there is no reason why this couldn't be included in Jessica schemes." And if that doesn't get them talking at Mipim, nothing will.

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