

SCOTTISH  
PARTNERSHIP *for*  
REGENERATION *in*  
URBAN  
CENTRES



**AMBER**  
**GREEN**

Sustainable Capital

## Overview



## 1. Introduction to JESSICA and SPRUCE

- a) JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative of the European Commission and the European Investment Bank (EIB) in collaboration with the Council of Europe Investment Bank developed for the 2007-2013 Programming period of Structural Funds. Member states have the option of using resources from their Structural Funds allocations to support regional JESSICA projects.
- b) JESSICA is different to the normal process of allocating European monies to individual projects through providing grants. Each individual JESSICA is set up as an investment fund, which can invest Structural Funds in projects through repayable senior and/or mezzanine loans or equity investments. Because the investments are repaid or can be sold on, money is returned to the fund and so JESSICA is seen as a sustainable funding mechanism. JESSICA funds can therefore continue to invest in urban regeneration areas after the Structural Funds Programmes that created them are closed down.
- c) The Scottish Government has commissioned the European Investment Bank (EIB) to act as the JESSICA Holding Fund manager for Scotland. The Holding Fund has £50m to invest in urban regeneration and energy efficiency projects. The £50m is sourced from a combination of Priority 3 (Urban Regeneration) of the Lowlands and Uplands of Scotland (LUPS) European Regional Development Fund Programme and funding from the Scottish Government's own resources.
- d) The EIB has procured, on behalf of the Holding Fund, an Urban Development Fund (UDF) which will invest the monies into urban regeneration and energy efficiency projects.
- e) The **Amber Green Consortium**, led by Amber Infrastructure, has been selected as the operator of the fund, to be known as **SPRUCE** (Scottish Partnership for Regeneration in Urban Centres). The fund launched in December 2011, with work ongoing on the investment pipeline.
- f) The investment criteria for SPRUCE require projects that are:
  - **Eligible** - under the ERDF rules and fit the SPRUCE investment criteria;
  - **Viable** - able to repay the SPRUCE investment in full plus interest; and
  - **Deliverable** – investment ready so that all SPRUCE funds can be invested by 2015.

## 2. Investment Criteria

Eligible projects under Priority 3 of the Lowlands and Uplands Scotland (LUPS) ERDF Operational Programme 2007-2013 will need to meet at least one of the following criteria:

### Property & Infrastructure Investments

- a) Development, refurbishment and enhancement of locally based training/ learning and e-skills centres;
- b) Safe transport hubs to link areas of need with those of opportunity;

- c) Projects that promote clean and sustainable public transport to link areas of need with those of opportunity;
- d) Investment in increased local access to ICT facilities within communities with the intention of improving skills of local people seeking to re-enter the labour market and increasing access to web based public services;
- e) Development and refurbishment of existing facilities and workspace to make them suitable for new or established SMEs or social enterprises, (especially those that employ 'green design' principles and are built to a BREEAM (Building Research Establishment Environmental Assessment Method for buildings) Excellent standard);
- f) Conversion and adaptation to industrial sites and business centres/facilities that offer employment and training to people living in targeted areas (especially those that employ 'green design' principles and are built to a BREEAM Excellent standard); or
- g) Projects that invest in the rehabilitation of the built environment (specifically work around the decontamination and servicing of brownfield land and gap sites but only if it can be demonstrated that the end use of the land is linked to ERDF eligible activity. This activity excludes development of public realm unless a reasonable and direct physical link is made with ERDF eligible activity.)

## Energy Efficiency & Renewables Investments

- h) Energy production from renewable energy and low carbon technologies in response to local energy needs, such as co-generation and distribution energy systems (for example district heating and combined heat and power projects); or
- i) Schemes that pilot or demonstrate new or innovative approaches to energy efficiency retrofit measures, including the retrofit of existing social housing stock. Energy Conservation Measures (ECMs) funded as part of energy efficiency retrofit projects may include the technologies listed in the table below. Energy Efficiency projects should aim to deliver the following:
  - A first year reduction of greenhouse gases emissions equivalent to £1,500 acquisition cost per tonne of CO2 compared to conditions prior to the project being implemented; and
  - Energy Savings Ratio of at least 20% compared to conditions prior to investment

Table 1: Energy Conservation Measures

CATEGORY	ECM TECHNOLOGY
Metering & Controls	- Automatic metering system
	- Building Management System (BMS)/controls upgrade
Lighting	- Lighting control
	- Low energy lighting
Small Power	- Small power management controls

	- Low energy appliances and equipment
HVAC (Heating, Ventilation and Air Conditioning)	- Boiler upgrade
	- Variable speed drives for fans and pumps
	- Air handling unit heat recovery
	- Chiller upgrade
	- Domestic hot water services point of use generation
Miscellaneous	- Vertical transportation control and management
	- High efficiency measures on hydraulic lifts
Fabric	- Infiltration measures (Air-tightness improvements)
	- Replacement glazing
	- Roof insulation upgrade
	- Wall insulation - overcladding
CHP (Combined Heat and Power)	- Combined heat and power (building integral)
Low and zero carbon technologies	- Biomass boilers
	- Photovoltaic cells (PVs)
	- Medium scale wind
	- Biomass CHP
	- Ground Source Heat Pumps (GHP)

## Eligible Geographies

Projects must also be linked to an integrated plan for sustainable urban development and be located within one of the following 13 eligible local authority areas under Priority 3 of the Lowlands and Uplands Scotland (LUPS) ERDF Operational Programme 2007-2013:

- Clackmannanshire
- Dundee
- East Ayrshire
- Edinburgh
- Fife
- Glasgow
- Inverclyde
- North Ayrshire
- North Lanarkshire
- Renfrewshire
- South Lanarkshire
- West Dunbartonshire
- West Lothian

## Eligible Borrowers/Project Sponsors

Projects may come from a variety of sources, and may be sponsored by public, private or third sector bodies. Borrowers may include Local Authorities, Urban Regeneration Companies, private

sector developers, national and local regeneration bodies, Registered Social Landlords, joint ventures and the voluntary sector.

### 3. Advantages of SPRUCE

SPRUCE provides many advantages over other potential sources of finance, including Public Works Loan Board (PWLB) funding and commercial debt. These are summarised below:

- **Price.** SPRUCE financing may be cheaper than other sources of finance and thus offers excellent value for money for the public and private sectors. SPRUCE is targeted at markets where traditional bank finance may not be available at all or is prohibitively expensive, and can therefore unlock projects that have otherwise stalled.
- **Term.** SPRUCE will look at options from short term development finance to 5-10 year investment loans, with longer investment periods being considered on a case by case basis. There are no fixed payback periods, no early repayment fees, and interest may be rolled up during construction.
- **Flexibility.** SPRUCE can offer sculpted repayment profiles, for example allowing borrowers for energy efficiency projects to match payments to revenue savings. As a result projects can be revenue neutral or cash positive for the borrower.

### 4. Indicative Terms of Investment

The following provides an overview of the indicative approach and target markets for SPRUCE:

- a) SPRUCE provides repayable investment finance, and loans must therefore be repaid in full plus an interest element. The fund is unable to provide grant funding and cannot confer State Aid.
- b) SPRUCE will target investments of between £1-10m. Smaller or larger projects will be considered on a case by case basis. Draw down can be upfront or on a phased basis.
- c) SPRUCE may consider providing up to 100% of senior debt finance for Energy Efficiency retrofit projects if required and if appropriate security is provided.
- d) For property and infrastructure projects, project sponsor equity must be provided. Project sponsors will be expected to assemble a complete funding package including other sources of grant/ investment/ debt as well as SPRUCE.
- e) SPRUCE will focus initially on the provision of senior debt. Mezzanine loans and equity are also available depending on the project financing structures and State Aid considerations.
- f) There is no set payback period required, but SPRUCE will focus on short term development loans and medium term 5-10 year investment loans. Longer investment periods will be considered on a case by case basis.

- g) The pricing of SPRUCE loans will be dependent on the credit rating of the borrowing entity and the amount and level of security provided. The aim is to be able to structure the transaction so that a highly competitive rate can be offered.
- h) SPRUCE may be able to offer flexible terms depending on the project (for example the potential to roll up interest during construction, to sculpt interest payments to energy savings, and to allow early repayment), on better terms than available from standard commercial lenders or traditional public sector sources such as the PWLB.
- i) Projects will be reviewed on an ongoing rolling basis, with no set deadline for applications or 'funding rounds'.
- j) All projects will be subject to due diligence in the same way as a lending bank in order to ensure SPRUCE has the necessary assurance over technical and financial aspects of the project.
- k) Projects will be required to comply with monitoring, reporting and publicity requirements linked to the provision of European Regional Development Fund (ERDF) monies.

## 5. Indicative Application Process

Potential project sponsors should contact the SPRUCE team for an informal discussion on progressing an application. SPRUCE aims to operate a streamlined application process with a quick turnaround on investment decisions and short form template loan documentation. In order to ensure projects meet the funds criteria and to manage risk, SPRUCE will review information in the areas listed below. Borrowers seeking investment from SPRUCE will need to address and evidence these areas through a written application process, supported by guidance from the fund.

### a) Eligibility

- Does the project form part of an Integrated Plan for Sustainable Urban Development (IPSUD)?
- Does the project provide sufficient outputs in terms of creation of business space, carbon reduction or energy savings?
- Does the project deliver other types of eligible activity under ERDF Priority 3, for example provision of safe transport hubs, development of locally-based learning centres or decontamination and servicing of brownfield land?
- Does the project support sustainable development objectives and achieve broader regeneration benefits?
- Does the project meet ERDF eligibility requirements (as set out in Section 2)?

### b) Viability

- What is the financial structure of the project, and are other sources of finance secured?
- Are financial assumptions on costs, values, income and savings robust and verifiable?

- Is a full financial model available?
- Are the technologies/ measures proposed of appropriate type and quality?
- What is the payback period for the investment?
- What is the credit strength of the borrowing entity and what security can be provided?

## c) Deliverability

- Is the project investment ready?
- When will the project be in a position to draw down investment?
- What are the procurement arrangements and timetable for the delivery of the works?
- Is planning permission required and has it been secured?
- Have the required technical studies been undertaken?
- What is the track record of the project sponsor and borrower in delivering projects on time and budget and on taking on repayable loan finance?
- Does the project have access to appropriate technical and financial expertise to ensure delivery and minimise risk?
- Is there proven leadership and management/political support for the project?
- What approvals are required before a loan agreement can be signed?

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