

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD3186

Title: GLA Investment into the London EDGE Fund

Executive Summary:

The Mayor has declared a climate emergency and set a 2030 net zero target for London. Supporting this ambition and his wider environmental goals will require considerable investment in capital infrastructure across London's buildings, energy networks and transport systems. To that end, in June 2023, the Mayor launched his London Climate Finance Facility (LCFF) to unlock investment to support the decarbonisation of London's capital infrastructure, and opened the Green Finance Fund as its first mechanism.

The approach and structure of the LCFF was informed by work done by the Green Finance Institute (GFI). One of the recommendations was that the LCFF needed to include investment structures that are managed by independent fund managers to leverage significant private capital into climate and environmental projects.

This decision will facilitate the establishment of a new £100m investment fund called the London Efficient and Decentralised Generation of Energy ('EDGE') Fund, that will accelerate investment into projects supporting the Mayor's net zero ambitions across London. The London EDGE Fund will be independently managed by Sustainable Development Capital LLP ('SDCL') but aligned to GLA priorities and will be capitalised initially with £50m of GLA resources and investment from other funds managed by SCDL.

Decision:

That the Mayor approves:

1. Commitment of £50m to be used as co-investment for the establishment of the London Efficient and Decentralised Generation of Energy ('EDGE') Fund, which is to be managed by Sustainable Development Capital LLP (SDCL).
2. A delegation of authority to the Executive Director of Resources to conclude the Limited Partnership Agreement for the London EDGE Fund and to approve any future amendments, with advice from the GLA's Chief Investment Officer.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

21/11/23

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. Climate change is increasing the frequency and intensity of extreme weather and associated impacts to human and natural systems such as health, food production and species loss. In 2018, the Mayor declared a climate emergency for London and brought forward London's net zero target from 2050 to 2030. Element Energy was commissioned to help determine how this accelerated target could be achieved. Of the four pathways they modelled to get to net zero, the Mayor's preferred option was the Accelerated Green pathway¹, as it balances urgency, ambition, social justice and deliverability.
- 1.2. Considerable investments in capital infrastructure across London's buildings, energy networks and transport systems are required to achieve the target of net zero by 2030, and for the Accelerated Green scenario this was estimated to be at least £75 billion. This investment cannot be borne solely by London's government or the public purse. To achieve the Mayor's net zero ambition, the GLA will work with local and national government, utilities, business, finance institutions and Londoners to find the right funding mechanisms to support the infrastructure that is needed. This also includes creating the enabling environment that allows collaboration between public and private sector investors.
- 1.3. To facilitate this, in June 2023, the Mayor launched the London Climate Finance Facility (LCFF)² to unlock significant investment to support the decarbonisation of London's capital infrastructure. The approach and structure of the LCFF was informed by work carried out by the Green Finance Institute (GFI). The GFI explored several options for mobilising investments in environmental projects before setting out their recommendations in their report 'Mobilising Capital at Scale for Net-Zero Projects: London's Climate Finance Facility'³.
- 1.4. Given the pressing need for investment, the GFI recommended a phased approach for setting up the LCFF. It was recommended that the GLA initially capitalise the LCFF using the strengths of its own balance sheet and public sources of capital. As this initial capital would be from public sources, it was proposed that the GLA establish internal mechanisms for managing this pot of funding. In February 2022, the Mayor committed to raise £500m for climate actions by issuing green bonds. This led to the development of the Green Finance Fund (GFF)⁴, which the Mayor also launched in June 2023.
- 1.5. However, given the currently unfavourable borrowing conditions of the bond market (compared to the Public Works Loan Board (PWLb), the GLA's default lender), financing for the GFF will come initially from GLA's cash resources. Subject to a shift in market conditions, the GLA intends to launch a green bond programme, with the proceeds being used to refinance any initial commitments made from the GFF. Further bond issuance under the programme would finance any new projects subsequently identified. If market conditions continue to make the issuance of

¹ London Net Zero 2030: An Updated Pathway - www.london.gov.uk/sites/default/files/london_net_zero_2030_-_an_updated_pathway_-_gla_response_1.pdf

² Mayor's LCFF - <https://www.london.gov.uk/programmes-strategies/environment-and-climate-change/climate-change/zero-carbon-london/london-climate-finance-facility/mayors-london-climate-finance-facility-response>

³ Mobilising Capital at Scale for Net-Zero Projects: London's Climate Finance Facility - <https://www.greenfinanceinstitute.co.uk/wp-content/uploads/2023/06/GFI-LONDON-CLIMATE-FINANCE-SUMMARY-REPORT.pdf>

⁴ The GFF is not a legal entity but rather a dedicated funding stream within the GLA.

green bonds uneconomical, the initial commitments from the GFF will be refinanced by borrowings from the PWLB and/or other sources.

- 1.6. The GFF provides loan finance to accelerate investment into green projects. As recommended by GFI, the GFF was set up as the internally managed component of the LCFF, with its investments administered by the GLA's arms-length, regulated subsidiary, London Treasury Limited (LTL). The GFF focuses on green projects from the GLA Group and other London-based public sector bodies, where there is a good understanding of budgets and governance, and that would represent a lower risk exposure for the GLA.
- 1.7. As set out in the GFI's report, if the LCFF is to attract significant private capital into climate and environmental projects, it will also need to include investment structures that are managed by external fund managers in order to target investments at projects that are not well-developed and/or more complex, and where the risk profile may be higher. Drawing on experiences from the Mayor of London Energy Efficiency Fund (MEEF)⁵, which was approved through MD2165, the GLA will seek to use these structures to mobilise private sector investments into the sectors proposed by GFI, such as buildings retrofit and energy efficiency, renewable energy and district energy networks and clean transportation (including charging infrastructure). Work is being planned to explore other sectors.
- 1.8. The GFI report outlined three main barriers to investments in local environmental projects:
 - inadequate in-house and/or procurement capacity to provide the engineering technical assistance required to develop projects to a shovel-ready stage
 - limited expertise in commercialising climate related projects in a way that can be sold to financial institutions
 - insufficient public capital available to develop and fund projects
- 1.9. Following market engagement, the specialist investment firm, Sustainable Development Capital LLP (SDCL), made a proposal to address these investment barriers through the establishment of a new, externally-managed £100m investment fund, to be called London EDGE fund ("EDGE"). The EDGE will be structured similarly to another fund managed by SDCL and will seek to increase the pace of development, financing and implementation of climate and environmental projects, to achieve significant reductions in energy usage, greenhouse gas emissions or other pollutants.
- 1.10. The EDGE, which will be independently managed by SDCL, will provide repayable finance to support the end-to-end phases (from concept to development to operation) of energy efficient and decentralised energy projects. While the EDGE's investment approach is different from MEEF and the GFF (which only provide finance for the construction phase of a project), arrangements will be put in place to avoid any overlap.
- 1.11. As part of its assessment of the EDGE as an investment proposal, the GLA worked with SDCL to ensure that any investment from the GLA would not only generate a financial return but would also support the Mayor's priorities.

2. Objectives and expected outcomes

- 2.1. The EDGE will focus on developing and implementing projects in the following sectors: healthcare, education, transport, district energy, government buildings (including central and

⁵ MEEF is expected to cease investment by end of December 2024.

local government, fire, police, and defence) and digital infrastructure. The technology that will be supported is outlined in Appendix 1. The key performance indicators that will be monitored and reported by the EDGE will include:

- energy savings in kWh/MWh
- greenhouse gas emissions reduced/avoided in tonnes of CO_{2e}
- renewable energy generation

- 2.2. Through the EDGE, SDCL will provide a comprehensive 'energy-as-a-service' solution. They will be a single point of contact for project management, design, build, operation and maintenance. This will be done by identifying, contracting and managing specialist contractors needed for the successful development and implementation of a project. This will be organised through a project company special purpose vehicle (SPV) as illustrated in figure 1 in Appendix 1.
- 2.3. The finance from the EDGE will be provided to the project company SPV to carry out the relevant works. Project sponsors would not be required to secure any upfront finance but rather pay for the support 'as a service', by making regular payments over an agreed timeframe. This is another difference from MEEF and the GFF, where the finance is provided upfront to project sponsors as borrowing, which they repay over time.
- 2.4. As part of the drive to mobilise significant private sector investment, the EDGE will be structured and managed to make it attractive to other investors. It will be set up as a limited partnership, which is a legal structure that is well known by the investment community and allows other investors to easily invest at different stages.
- 2.5. The key terms that will govern the EDGE are summarised in Part 2 of this decision. This will form the basis of a more detail Limited Partnership Agreement (LPA) that will be executed by the GLA and other investors. The GLA will not direct the investment decisions of the EDGE; however, as one of the initial investors it can shape the final LPA and the associated investment policy and strategy to ensure investment aligns with the Mayor's priorities. The GLA can also shape the fund's strategic delivery through its membership of the EDGE's Advisory Committee, which will be set up once the EDGE is established.
- 2.6. To get investment flowing as quickly as possible to projects, it is proposed that the EDGE be established initially with only GLA and SDCL as the main investors. At the outset, the EDGE will be capitalised with £100m, with SDCL investing £50m from the other funds it manages and the GLA investing an equal amount. Soon after the EDGE is established, a fundraising campaign will be launched to attract other investors; exploratory discussions have already been held with some investors.
- 2.7. SDCL has a 15-year track record in raising finance for and managing similar funds, which support energy efficiency, on-site generation and clean energy projects in several countries. SDCL manage three energy investment vehicles (two of which are listed, one on the London Stock Exchange and the other on the New York Stock Exchange), investing almost £2bn in projects and private companies. This should provide suitable recognition and assurance to investors during the fundraising campaign.
- 2.8. As outlined in the 2023-24 Treasury Management Strategy Statement (in MD3128), the GLA recognised three categories of investment, one of which is Service Investments whereby investment is made to support the purposes and policy objectives of the GLA. The GLA's investment in this Fund represents a Service Investment but is not required to provide any

subsidy – it will be investing on a *pari passu* basis alongside other investors. The EDGE fund will operate on commercial terms that should allow the GLA, and other investors, to recover their initial investment plus an appropriate yield. Such returns will allow the GLA to make further investments in similar activities and/or support other policy areas.

3. Equality comments

3.1. Under section 149 of the Equality Act 2010, as a public authority, the Mayor and the GLA are subject to the public sector equality duty and must have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation
- advance equality of opportunity between people who share a relevant protected characteristic and those who do not
- foster good relations between people who share a relevant protected characteristic and those who do not.

3.2. Protected characteristics under section 4 of the Equality Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sex orientation, and marriage or civil partnership status (all except the last being “relevant” protected characteristics). Given the nature and proposed activities of the fund, it is not anticipated that the decision to invest in the EDGE should negatively affect any protected groups. Indeed, the fund will positively benefit Londoners by reducing carbon emissions, including from the public sector, and potentially increasing resilience of some of the groups most vulnerable to the impacts of climate change.

3.3. However, the GLA will ensure that the fund’s documentation includes relevant provisions requiring SDCL to take steps to both prevent discrimination based on racial or ethnic origin, religion or belief, disability, age or sexual orientation during the implementation of the EDGE, and advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. SDCL is a signatory to the United Nations Principles for Responsible Investment (UNPRI) and has established Environmental, Social and Governance (ESG) principles which will be incorporated into the operations of the EDGE.

4. Other considerations

a) Key risks and issues

4.1 Detailed due diligence work was conducted to better understand SDCL’s track record and ability to successfully manage the EDGE. It also allowed for a better understanding of how the EDGE can help deliver the Mayor’s environmental ambitions, leverage considerable private investment and secure a return on investment for the GLA. A wide review of various documents and several meetings with SDCL, provided assurances on these issues:

- Deal origination – as the fund will provide support using a service model, originating deals would mainly be through direct engagement and procurement (usually via framework). SDCL have demonstrated, through previous funds, their ability to originate, bid, build, operate and maintain projects within the sectors the fund will target. Following detailed discussions with SDCL’s Asset Management, ESG and Investment teams, we are confident that their

origination strategy should enable good, consistent deal flow to the EDGE. SDCL has already engaged with a number of potential projects which could be financed through the EDGE.

- Delivering environmental impacts – the due diligence work also involved reviewing SDCL’s track record of delivering environmental impacts (such as reduction of CO2 emissions and renewable energy generation) through their investments, which will support the Mayor’s environmental objectives. A review of the October 2022 ESG report⁶ for the £1.7bn SEEIT fund managed by SDCL demonstrates their ability to deliver significant environmental impacts in different countries.
- Raising private investment – a key objective of the EDGE will be to leverage considerable private sector investment. The growth of previous funds managed by SDCL has indicated their ability to attract private sector finance to scale fund assets under management. For instance, the SDCL Green Energy Solutions Fund raised €575m in 2021, and their SEEIT Fund raised approximately £1.1bn between 2018 and 2023.
- Financial return – as noted above, the GLA will be investing in the EDGE on the same terms and conditions as other investors. This investment is expected to deliver environmental impacts as well as a financial return. As mentioned in paragraph (ii) above, SDCL has a very good track record in delivering environmental impact. In terms of financial return, the target internal rate of return (IRR) for the EDGE is 11per cent to 12 per cent (gross). Based on SDCL’s track record and the type of assets the EDGE will invest in, this should be achievable, although not guaranteed, and the matching co-investment alongside the GLA from other commercial SDCL funds provides strong alignment.

b) links to Mayoral strategies and priorities

4.2 The EDGE will play an important role in supporting the Mayor’s ambition of London achieving net zero carbon by 2030, by accelerating investment into green projects. As such, the EDGE will contribute towards a broad range of objectives, policy and proposals in the London Environment Strategy and the Mayor’s Pathways to Net Zero by 2030. This include:

- Objective 6.1 – reduce emissions of London’s homes and workplaces while protecting the most vulnerable by tackling fuel poverty
- Policy 6.1.3 – improve the energy efficiency of London’s workplaces and support the transition to low carbon heating and power
- Proposal 6.1.3.a – provide direct assistance to help reduce CO2 emissions and energy within the public sector
- Proposal 6.1.3.b – support the reduction of emissions and energy use within the commercial sector, including through improved building management, energy efficiency and reporting
- Policy 6.2.1 – delivering more decentralised energy in London.

4.3 In addition, the fund will support relevant Economic Development Strategy policies such as Policy 4.3 – Infrastructure: London’s economy relies on a whole range of infrastructure, in addition to transport, to function effectively. This includes energy and water networks, sewerage and drainage systems, waste facilities and digital infrastructure. This fund will support more localised

⁶ www.seeitplc.com/wp-content/uploads/2022/11/SEEIT-ESG_2022.pdf

and renewable energy; transition to a low-carbon circular economy; and protecting and enhancing London's environment and green infrastructure.

c) *Conflicts of interest*

- 4.4 There are no conflicts of interest to note for any of the officers involved in the drafting or clearance of this decision form.
- 4.5 SDCL's Chief Operating Officer was until recently a Board Member of Transport for London, but has not been involved in either the initial contact between SDCL and the GLA or any subsequent commercial discussions.

5 Financial comments

- 5.1 Mayoral approval is requested for a commitment of up to £50m to invest alongside other investors, in a fund that will make investments in projects that supports the Mayor's net zero ambitions.
- 5.2 The commitment will be drawn by the fund manager, SDCL, as and when it is needed for investments in projects, over next five financial years. Appropriate due diligence was conducted on the SDCL's ability to successfully manage EDGE. An estimated drawdown profile is outlined in the table below:

	Financial Years					Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Expenditure (£'000)	5,000	10,000	15,000	15,000	5,000	50,000

- 5.3 The commitment of £50m will come from GLA cash balances linked to investment returns from the London Green Fund (LGF) and MEEF. LGF and MEEF were established to make repayable investments in low carbon infrastructure projects and are now yielding returns to the GLA.
- 5.4 At 31 March 2023, the net return (gross return less amount paid to other GLA projects) from the LGF was approximately £32m. Further gross returns from both the LGF and MEEF of up to approximately £43m are expected by 2030.

6 Legal comments

- 6.1 The foregoing sections of this report indicate that the decisions requested of the Mayor concern the exercise of the Authority's general powers; falling within the Authority's statutory powers to do such things considered to further or which are facilitative of, conducive or incidental to the promotion of social development and the improvement of the environment in Greater London; and in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

- pay due regard to the principle that there should be equality of opportunity for all people

- consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom
- consult with appropriate bodies.

- 6.2 In taking the decisions requested, the Mayor must have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; sexual orientation) and persons who do not share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010). To this end, the Mayor should have particular regard to section 3 (above) of this report.
- 6.3 Sections 30 of the GLA Act and section 12 of the Local Government Act 2023 provide the legal powers for the GLA to enter into (and invest in) limited partnerships as a limited partner. Officers should ensure that the Limited Partnership Agreement is properly executed before any investment is made into the EDGE Fund.

7 Planned delivery approach and next steps

Activity	Timeline
Announce intention to established London EDGE Fund [possibly at COP 28]	November 2023
Finalised Limited Partnership Agreement, to establish	January 2024
Formal Launch of the London EDGE Fund	January 2024

Appendices and supporting papers:

Appendix 1 – London EDGE Fund – Illustrative Project Structure and Technology

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will be published either within one working day after it has been approved or on the defer date.

Part 1 – Deferral

Is the publication of Part 1 of this approval to be deferred? YES

If YES, for what reason: To align with the related announcement.

Until what date: 4 December 2023

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under the FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – YES

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Kenroy Quellenec-Reid has drafted this report in accordance with GLA procedures and confirms the following:

Sponsoring Director:

Enver Enver has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

Mayoral Adviser:

David Bellamy has been consulted about the proposal and agrees the recommendations.

Advice: The Finance and Legal teams have commented on this proposal.

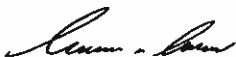
Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 20 November 2023.

INTERIM CHIEF FINANCE OFFICER:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature:



Date:

20/11/2023

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor.

Signature:



Date:

20/11/2023

