

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2165

### **Title: Commitment of European Regional Development Fund to Mayor of London's Energy Efficiency Fund**

#### **Executive Summary:**

This Mayoral Decision seeks approval for the award of up to £43m from London's European Regional Development Fund (ERDF) allocation to enable the creation of a new low carbon infrastructure fund providing repayable finance. The new fund will be called the Mayor of London's Energy Efficiency Fund (MEEF) and, subject to the conclusion of a procurement standstill process and subsequent entry into legal agreements, it will be managed by Amber Infrastructure Limited (via its entity regulated by the Financial Conduct Authority). MEEF will help deliver the Mayor's Energy for Londoners programme, contributing to the Mayor's ambition to put London on track to becoming a zero-carbon city by 2050.

The MD also proposes arrangements that will allow for the effective and efficient monitoring of MEEF and its predecessor, the London Green Fund.

#### **Decision:**

The Mayor approves:

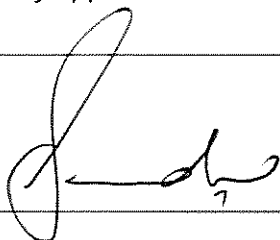
1. The commitment and award of up to £43m from the European Regional Development Fund (ERDF) to Amber Infrastructure Limited, which will be invested through the Mayor of London's Energy Efficiency Fund (MEEF);
2. In relation to the above decision, the GLA becoming a limited partner in MEEF, which will be established as a limited partnership; and the GLA entering into a contingent loan agreement with a Limited Liability Partnership of which MEEF will be one of the members;
3. The establishment of a new committee to support GLA officers in monitoring MEEF and the London Green Fund.

#### **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:**

6/11/17

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

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1 The Greater London Authority (GLA) was designated as an Intermediate Body (IB), by the Department for Communities and Local Government (DCLG), to manage London's allocation<sup>1</sup> from the 2014-20 European Structural and Investment Funds (ESIF) Programme for England. From this allocation, the former London Enterprise Panel (LEP) earmarked £43m from the European Regional Development Fund (ERDF) to establish a fund (the Mayor of London Energy Efficiency Fund (MEEF)) to provide repayable finance to low carbon infrastructure projects.
- 1.2 In November 2016, the GLA launched a public procurement exercise to select an organisation to set up MEEF and invest the £43m ERDF and other funding proposed to be committed to it. Following a comprehensive process overseen by TfL's procurement and legal teams, a preferred bidder, Amber Infrastructure Limited (Amber), was selected on 7 August 2017.
- 1.3 In its bid, Amber proposed to set up MEEF as a limited partnership. This means that the GLA will commit part of the ERDF funding by becoming a limited partner in MEEF. A Limited Liability Partnership (LLP), of which MEEF will be a member (along with the general partner for management purposes), will also be established specifically for debt finance purposes. The GLA will also commit ERDF funding to the LLP to be used for debt finance.
- 1.4 Once they have assumed their role as fund manager, Amber will create appropriate governance arrangements for MEEF. However, it is proposed that the GLA establish a small committee to oversee its involvement in MEEF and the three similar funds that were set up under the 2007-13 ERDF programme.
- 1.5 MEEF will provide an important financial mechanism to support a range of low carbon infrastructure projects, and help London transition to a low carbon economy as we show leadership in tackling climate change. The Mayor's draft London Environment Strategy (published for consultation in August 2017) sets the ambition for London to become a zero-carbon city by 2050.
- 1.6 The Mayor's Energy for Londoners (EfL) programme is a key part of the draft London Environment Strategy. Existing climate change and energy programmes in London achieved a reduction of 670 ktCO<sub>2</sub>e in 2015, a threefold increase on 2011 levels. This, however, represents only two per cent of London's energy demand. EfL will help speed up work to decarbonise London's homes and workplaces and develop clean energy systems. The programme requires the development of supportive financial mechanisms, such as MEEF, to help drive investment in low carbon infrastructure and energy efficiency.

#### **Previous Mayoral Decisions**

- 1.7 This request is in line with the Mayoral Decision 1583 (March 2016) where the previous Mayor:
  - approved the designation of the GLA as an IB for the 2014-20 ESIF programme and concluding a Memorandum of Understanding between the GLA and DCLG; and
  - delegated authority to GLA Officers to conclude funding agreements and authorise payments.

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<sup>1</sup> London was allocated €748m from the 2014-20 European Structural and Investment Funds Programme for England. This came from two funds: European Social Fund (ESF) and European Regional Development Fund (ERDF). ESF invests in people, with a focus on improving employment and education opportunities across the European Union. ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions.

## **2. Objectives and expected outcomes**

- 2.1 The commitment of £43m ERDF will allow for the creation of a new low carbon infrastructure fund: MEEF. It will be used to leverage, at the outset, £100m from the European Investment Bank (EIB), subject to its due diligence and final approval of MEEF. Amber are required to secure a further £260m from other sources, which will lead to projects valuing at least £400m being supported. However, in view of the funding gap mentioned at paragraph 4.13, the GLA will continue to work with Amber and other institutions (such as pension funds) to explore how further funding can be made available.
- 2.2 All projects using ERDF funding are required to meet the objectives of the England ERDF Operational Programme (OP) that was agreed between DCLG and the European Commission in 2015. The OP focusses on investment to support economic growth and job creation. MEEF will contribute to the OP's and London's objectives of moving towards a low carbon economy by making loan and equity investments in projects that involve:
- building retrofit and energy efficiency measures in public, commercial and residential properties;
  - production and distribution of low carbon energy, including: combined heat and power; tri-generation; and communal/district heating generation and/or networks; and
  - small scale renewable energy generation.
- 2.3 MEEF will provide finance to a range of projects developed by public, private and not-for-profit organisations. This will lead to the achievement of several environmental outcomes that will contribute to London's share of the overall OP targets. These include:
- additional capacity of renewable energy;
  - decrease of greenhouse gases;
  - decrease in primary energy consumption of public buildings; and
  - improved energy consumption of households.
- 2.4 The investments from MEEF will be repayable and so, in addition to achieving the environmental outcomes outlined above, it will also generate a financial return that can be reused for similar activities.

## **3. Equality comments**

- 3.1 The OP sets out requirements for equalities 'cross-cutting' themes and ERDF funded projects should therefore promote equality in accordance with European Union and national requirements.
- 3.2 Furthermore, the GLA as a public authority must comply with the Public-Sector Equality Duty set out in section 149 (1) Equality Act 2010. This provides that, in the exercise of their functions, public authorities must have due regard to the need to:
- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
  - Advance equality of opportunity between persons who share a relevant protected characteristic 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.

- 3.3 The obligation in section 149(1) is placed upon the Mayor, as decision maker. Due regard must be given at the time a decision is being considered. The duty is non-delegable and must be exercised with an open mind.
- 3.4 This duty applies to GLA's role as an IB and means that delivery of the OP at local level, including in London, must consider the needs of all individuals and have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people. Where a project has an objective to work with people with specific protected characteristics, this will be inherent in the project application. Where applicable, Amber will be expected to capture this data as part of their fund management role.

#### **4. Other considerations**

##### *a) key risks and issues*

- 4.1 As noted in paragraph 1.3, MEEF will be established in the form of a limited partnership, which is typical for such funds. The GLA will commit the £43m ERDF funding to MEEF by becoming a limited partner. As a limited partner, the GLA's liabilities will be limited to the ERDF amount committed. This is the same arrangement that GLA has with the London Green Fund (LGF) as mentioned in paragraphs 4.7 - 4.9 below.
- 4.2 The GLA will not be involved in the management or operation of MEEF; this will be done by the General Partner and Amber, as the fund manager. All applications for funding will be made directly to MEEF. These will be assessed by Amber, who will take decisions on whether to invest, based on an investment strategy agreed by GLA. The GLA will not take these investment decisions.
- 4.3 MEEF will have an investment period of five years from the date of establishment and repayments from projects can go up to the end of MEEF's life, which is 20 years. Any financial returns from MEEF's investments, which are associated with ERDF<sup>2</sup>, will be repaid to the GLA for reuse in accordance with EU Regulations.
- 4.4 The long-term effect of the decision to leave the EU in relation to ERDF is not yet known. This Mayoral Decision is drafted on the basis that GLA can continue to issue ERDF funding agreements until the point of Brexit. In October 2016, the government confirmed it would guarantee EU funding for structural and investment fund projects (including ERDF) for agreements signed before the UK's departure from the EU, even when these projects continue after the UK has left the EU. The EIB has also indicated that as the UK is still a member of the EU, it continues to be eligible for the £100m investment that was agreed by its Board.
- 4.5 The amount of ERDF allocated to MEEF may be revised during the final approval process as officers finalise the ERDF Funding Agreement and other fund documentation. However, it is not expected to exceed the £43m as stated on the cover page of this Mayoral Decision; any increase would be approved in line with the delegations listed in Mayoral Decision 1583.
- 4.6 Once the ERDF Funding Agreement and other fund documentation are concluded, GLA officers will carry out contract management functions by, among other things, monitoring the delivery of MEEF to ensure activity takes place as agreed and outputs are achieved. In addition to this, it is proposed that a small committee, consisting of members with relevant technical and policy expertise and experience, be convened to supplement the contract management work through monitoring of the wider operation of the fund. This would involve activities such as reviewing project pipeline development and portfolio performance; providing guidance on policy and strategic issues; and monitoring progress in achieving investment strategy.

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<sup>2</sup> The amount of returns associated with ERDF will be subject to the arrangements with EIB. To the extent that there is any loss to EIB funding, the EIB, as a senior lender, will receive the first £100m of any returns associated with the ERDF and EIB contributions.

- 4.7 It is also proposed that this committee will play a similar role in respect of any residual issues relating to the LGF. The LGF is a £110m fund created in 2009 to provide equity and loan finance for waste management, decentralised energy and energy efficiency schemes. It consists of three independently managed sub-funds:
- Foresight Environmental Fund (FEF), which provided equity finance for the construction or expansion of: waste to energy facilities; value added re-use, recycling or reprocessing facilities; or other facilities displacing fossil fuel such as 'waste to fuel'.
  - London Energy Efficiency Fund (LEEF), which provides debt financing to projects involving: the adaptation or refurbishment of existing public and/or commercial buildings to make them more sustainable and environmentally friendly; and decentralised energy schemes.
  - Greener Social Housing Fund, which provided loans to support energy efficiency measures for existing social housing.
- 4.8 LEEF will continue to invest until August 2018, but the two other sub-funds have now ceased making investments. The original commitments to the funds (ERDF - £60m; GLA - £32m; and London Waste and Recycling Board - £18m) were made via the EIB, which managed day-to-day relations with fund managers.
- 4.9 However, in July 2017, the agreements EIB had with the sub-funds of the LGF (FEF, LEEF and the Greener Social Housing Fund) were novated to the GLA<sup>3</sup>. Two of the sub-funds (FEF and LEEF) are limited partnerships and GLA is now a limited partner in both. As with MEEF, GLA officers now carry out contract management functions for the three sub-funds and it is recommended that the committee proposed in paragraph 4.6 is also used to supplement and have oversight of this work. This committee will play a similar role in respect of any of the residual issues relating to the LGF and would mainly involve reviewing portfolio performance and exit strategies. The committee would also recommend how any returns associated with GLA's and ERDF's contributions to the LGF could be used.
- 4.10 Full terms of reference will be developed setting out the remit of the committee, its membership, frequency of meetings and rules of procedure. It is envisaged that members will be unremunerated, and representatives from outside the GLA will be selected via the usual openly-advertised external recruitment procedures, as per the London Economic Action Partnership.

*b) links to Mayoral strategies and priorities*

- 4.11 Projects approved for ERDF must contribute to London's share of the OP targets. As part of their appraisal all projects, including MEEF, are assessed on their alignment with the London ESIF Strategy. The London ESIF Strategy which supports the Mayoral economic objectives for a competitive and fairer London, was approved by the former LEP.
- 4.12 In supporting the OP's objectives of moving towards a low carbon economy, MEEF will also help to achieve the Mayor's ambition of London becoming a zero-carbon city by 2050. This includes working closely with other Mayoral programmes such as EfL. EfL encompasses home energy efficiency retrofit, improving workplaces (RE:FIT), and supporting clean local energy (DEEP<sup>4</sup>). By providing repayable finance to help establish low carbon infrastructure and encourage further investment in energy efficiency measures, MEEF will help achieve key objectives in the Mayor's draft London Environment Strategy, namely:
- Objective 6.1 reduce emissions of London's homes and workplaces while protecting the most vulnerable by tackling fuel poverty

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<sup>3</sup> This is detailed in Director Decision DD2081

<sup>4</sup> Decentralised Energy Enabling Project

- Objective 6.2 develop clean and smart, integrated energy systems utilising local and renewable energy resources

*c) impact assessments and consultations.*

- 4.13 EU regulations require that 'ex ante' assessments are carried out in respect of ERDF-backed investment funds to demonstrate market failures and funding needs. Deloitte, working with the EIB, were accordingly appointed to carry out an analysis of the low carbon finance market in London and an assessment of the need to continue public sector investment in environmental infrastructure, such as waste infrastructure, energy efficiency and decentralised energy schemes. They consulted key players in this market including policy officers, investors and fund managers. Their primary conclusion was an estimate of a finance gap for key sectors in this area of about £2.8bn.
- 4.14 The above analysis was supplemented by a review into how to structure a fund that could leverage funding from organisations such as the EIB and the Green Investment Bank, as well as other investors to address this gap. This was used to inform the procurement strategy that led to the proposed selection of Amber as the fund manager.

## **5. Financial comments**

- 5.1 Mayoral approval is being sought for the award of up to £43m from London's European Regional Development Fund (ERDF) to enable the creation of a new low carbon infrastructure fund providing repayable finance. The new fund will be called the Mayor of London Energy Efficiency Fund (MEEF); and will be managed by Amber Infrastructure Ltd.
- 5.2 The fund manager, Amber Infrastructure Ltd, will invest the money over a five-year period and expect to draw down £43m in four equal tranches. The European Commission has set rules on when each tranche is paid based on the rate of investment: 25 per cent is paid at the outset; the next 25 per cent when 60 per cent of the first tranche is used; the third and fourth when 85 per cent of the previous ones have been invested. The £43m will go directly from DCLG to Amber Infrastructure Ltd; not via the GLA.
- 5.3 The amount invested as loan or equity will be capital and their fees revenue, which will initially be paid from the £43m and later from any returns. There will be no costs to the GLA in the setting up and management of the MEEF.
- 5.4 The commitment of £43m ERDF will be used to leverage, at the outset, £100m from the European Investment Bank (EIB), subject to their due diligence and final approval. At least a further £260m is estimated to be secured by Amber Infrastructure Ltd from other sources, which would lead to projects value of at least £400m being supported. It is unknown at this stage when or if repayments would be made to the GLA as EIB will receive the first £100m of any returns, from the GLA and EIB contributions.
- 5.5 MEEF committee members will be unremunerated and GLA staff will act as the Committee secretariat.

## **6. Legal comments**

- 6.1 This report indicates that the decisions requested of the Mayor concerns the exercise of the GLA's general powers, fall within the GLA's statutory powers to do such things considered to further or which are facilitative of, conducive or incidental to the promotion of economic development and wealth creation, social development or the improvement of the environment in Greater London (its 'principal purposes') and in formulating the proposals in respect of which a decision is sought, officers have complied with the GLA'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 affect the health of persons in Greater London and health inequalities between persons in Greater London, the achievement of sustainable development in the United Kingdom, and climate change, and its consequences; and
  - consult with appropriate bodies.
- 6.2 As noted above, the GLA will be required to become a limited partner in MEEF. The GLA has the power to do this pursuant to section 12 of the Local Government Act 2003 which states that the GLA has the authority to invest for any purpose relevant to its functions and section 30 which permits the GLA to do 'anything' that it considers will further any of its principal purposes (as summarised in paragraph 6.1 above).
- 6.3 Officers must ensure the appropriate legal documentation is put in place and executed by Amber and the GLA before the commencement of MEEF.

## **7. Planned delivery approach and next steps**

- 7.1 Following Mayoral approval, an ERDF funding agreement will be concluded with Amber at the same time as concluding the documents for establishing MEEF. The EIB's loan agreement may also be concluded at that time, or later.
- 7.2 We expect MEEF to commence operation from January 2018.
- 7.3 EPMU will carry out the contract management of MEEF in line with DCLG instructions and guidance and in respect of the delegation limits set out in Mayoral Decision 1583.

## **Appendices and supporting papers: None**

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) 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 either be published within one working day after approval or on the defer date.

**Part 1 Deferral:**

**Is the publication of Part 1 of this approval to be deferred? Yes, until the conclusion of a procurement standstill process and subsequent entry into legal agreements with the preferred bidder, Amber Infrastructure Limited.**

**Date: Expected 31 January 2018.**

**Part 2 Confidentiality:** Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form – No.**

**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: ✓

**Assistant Director/Head of Service:**

Alex Conway has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval. ✓

**Sponsoring Director:**

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

**Mayoral Adviser:**

Shirley Rodrigues 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 30 October 2017.

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**

**Date**

*Tom Middleton* *30-10-17*  
ON BEHALF OF *MARTIN CLARKE*

**CHIEF OF STAFF:**

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

**Signature**

**Date**

*D. Jelland* *1/11/2017.*