

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD3062

Title: Extension to Mayor of London's Energy Efficiency Fund

Executive summary:

This Mayoral Decision (MD) seeks approval to extend the Mayor of London's Energy Efficiency Fund (MEEF) from 31 May 2024 to 31 December 2024. This extension will: enable further support towards the creation of low-carbon infrastructure via repayable finance; and support the transition to the successor initiative, the Mayor's new Green Finance Facility. This MD also notes receipt of additional funding from the European Regional Development Fund into MEEF.

Decision:

The Mayor:

1. approves the extension of the Mayor's Energy Efficiency Fund (MEEF) to 31 December 2024 to enable Amber Infrastructure Limited to continue investing into low-carbon infrastructure projects
2. notes the award of £20m from the European Regional Development Fund to MEEF.

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:

8/12/22

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

Decision required – supporting report

1. Introduction and background

The Mayor of London's Energy Efficiency Fund

- 1.1. The Mayor of London's Energy Efficiency Fund (MEEF) was launched in July 2018, and is over four years into its current five-year investment timeframe. It is an investment fund worth £500m, designed to finance low-carbon, sustainable projects and infrastructure. It provides flexible and competitive finance to new or retrofit projects that can clearly demonstrate renewable credentials, with investment of up to 20 years (to 2038) for:
- building retrofit and energy-efficiency measures in public, commercial and residential properties
 - the production and distribution of low-carbon heat, including combined heat and power, tri-generation, and communal/district heating generation and/or networks
 - small-scale renewable energy generation
 - low-carbon transportation.
- 1.2. MEEF was developed as a result of a £43m European Regional Development Fund (ERDF) allocation from London's ERDF programme.
- 1.3. The GLA procured Amber Infrastructure Limited (Amber) to act as the fund manager following a competitive procurement process. Amber successfully secured funding from private investors which, in addition to the £43m ERDF, made MEEF worth almost £500m. MEEF won backing from commercial lenders including Lloyds Bank, NatWest, Santander UK, Sumitomo Mitsui Banking Corporation and Triodos Bank. The £500m fund comprises a package of funding that is accessible when matched with public-sector contributions, such as ERDF, London Green Fund (LGF) returns or other GLA funding.

Previous Mayoral Decisions

- 1.4. MD2165 (November 2017) approved the commitment and award of up to £43m of ERDF funding to MEEF.
- 1.5. Subsequent MD2597 (March 2020) approved the award of up to £10.7m of ERDF funding to MEEF.¹ In practice, £8.2m was awarded from the £10.7m, as this was the limit of the ERDF available at the time of the award.
- 1.6. MD2865 (October 2021) approved the ability to reinvest returns from the LGF into MEEF for up to £30.2m.

Extension of MEEF's investment period

- 1.7. Contractually, the MEEF Limited Partnership Agreement allows for up to two years' extension to the investment period. This requires approval by the GLA via a Special Investor Consent.
- 1.8. Following approval of MD2865, it was agreed that MEEF's investment period would be extended from 31 May 2023 to 31 May 2024 to provide sufficient time and opportunity to invest the full

¹ The original procurement specification advised that the 'initial allocation by the GLA [of £43m ERDF] may be increased, by an additional amount of public money not exceeding £75m, during the investment period of the Fund [to May 2023]'.

£30.2m LGF returns.² MD2865 recognised that it was 'expected that ... an extension will be sought, which is permissible within the terms of the GLA's contractual arrangements with Amber.'

Rationale for the extension

- 1.9. To allow sufficient time for MEEF to invest the £30.2m, there are interlinked reasons for extending the fund to 31 December 2024. These are detailed at sections 1.10 to 1.21, below.

The current economic climate

- 1.10. The unprecedented increasing interest rate environment is impacting MEEF's pricing, which is affecting the public and private sector's appetite to borrow. With the potential for interest rates to continue upwards, it will take time for borrowers to update their business models to reflect the increased cost of capital.
- 1.11. Inflationary cost rises are also slowing down project delivery as business cases are being re-evaluated, and scopes narrowed or amended (so that grants and other funding can be accessed to mitigate cost rises).
- 1.12. Project sponsors are re-evaluating and applying for other sources of funding, especially grants through the Public Sector Decarbonisation Fund and the Green Heat Network Fund.
- 1.13. Whilst the MEEF pipeline remains active, projects are delaying, and affordability discussions are arising. The extension to December 2024 would allow MEEF to continue to work with a number of the pipeline projects. It would also allow the provision of further hands-on support in relation to business case reviews, technical assistance, and general commercial advice in this challenging economic environment.

To prevent stop-and-start for the new finance facility

- 1.14. The Mayor has committed, through his manifesto, to establish a finance facility to support his environmental aims. By extending the MEEF, we ensure continuity between MEEF ending and the emergence of a new facility for London. Work is under way to identify projects for the new facility to ensure investment continues beyond MEEF.
- 1.15. Experience has demonstrated that there should not be a lull between green infrastructure funds. The transition from the 2007-13 London Energy Efficiency Fund to MEEF saw an overlap. This meant continuity in the investment pipeline; and ensured MEEF did not launch from a standing start. The swift investment of MEEF's £51.2m ERDF, ahead of schedule, supports this.
- 1.16. Further, as EU rules dictate that ERDF was required for every investment, when the ERDF was exhausted MEEF's pipeline stalled. Despite the Mayoral Decision in October 2021 to provide up to £30.2m non-ERDF funding (from London Green Fund (LGF) returns), it took a further six months for the contractual arrangements to be agreed between the GLA and Amber. This further stalled the pipeline and meant, in effect, that in April 2022 Amber had to rescale up its promotion to the market.
- 1.17. It is critical to London's success that a pipeline of projects is supported and grown. To provide confidence to potential users and investors, continuity between programmes will be important.

Additional ERDF funding

- 1.18. This MD notes the receipt of a further £20m ERDF for MEEF following discussions with the Department for Levelling Up, Housing and Communities (DLUHC, the Managing Authority for ERDF in England).

² The LGF is an umbrella £110m fund to support waste-management, decentralised energy and energy-efficiency schemes. It launched in 2009 and all funds are invested.

- 1.19. As ERDF rules require that the funds are invested by 31 December 2023, i.e. in just over a year's time, Amber would invest the ERDF funding ahead of the non-ERDF (LGF returns) up to £30.2m. Once Amber has committed the ERDF, it will start to invest the remaining funds. In due course it will become apparent if Amber will seek access to the full £30.2m; if it looks unlikely, then some or all of those funds can instead be used by the GLA for other activity, including potentially towards the new finance facility. Officers, including in the GLA environment team, will coordinate with Amber on this.

MEEF's track record

- 1.20. MEEF has made 13 investments to date that are delivering energy and carbon savings for London. Contractual expenditure and outputs are on track to be achieved. Investments include:
- Colts Cabs (Zeti): electric bus-charging infrastructure in Lambeth
 - Breathe EV: part-purchase of 100 Tesla vehicles to lease
 - LB Enfield: district heating network at Meridian Water
 - Zenobe Energy: electric vehicle-charging infrastructure solution at a bus depot
 - LB Southwark: three water-source heat pumps to replace gas boilers on three council estates
 - RB Greenwich: streetlighting upgrade including LED replacement, and automated controls and sensors.
- 1.21. MEEF's pipeline is strong and provides surety that further investment will be made. As of October 2022, it included 23 potential projects worth a collective £240m that Amber considers investable, notwithstanding the economic concerns above.

2. Objectives and expected outcomes

- 2.1. The extension to MEEF to make investments until 31 December 2024 will fund the continued creation of new low-carbon infrastructure; and support the Mayor of London to deliver his Green New Deal mission and Net Zero target.³
- 2.2. MEEF is required to meet the objectives of the England ERDF Operational Programme (OP) under which the fund was originally established. The OP was agreed between the then Department for Communities and Local Government, and the European Commission. The OP focuses on investment to support economic growth and job creation; and MEEF contributes to the OP's and London's objectives of moving towards a low-carbon economy. MEEF provides finance to a range of projects which leads to the achievement of several environmental outcomes that will contribute to London's share of the overall OP targets. These include:
- additional renewable energy capacity
 - a decrease in greenhouse gases
 - a decrease in the primary energy consumption of public buildings
 - improved household energy consumption.

³ The Green New Deal aims to tackle the climate and ecological emergencies, and improve air quality, by doubling the size of London's green economy by 2030 to accelerate job creation.

3. Equality comments

- 3.1. The GLA as a public authority must comply with the Public Sector Equality Duty set out in section 149(1) of the 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
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 3.2. The obligation in section 149(1) is placed upon the Mayor, as decision-maker. Due regard must be had at the time a decision is being considered. The duty is non-delegable and must be exercised with an open mind. This duty applies in the delivery of the ERDF and means that the implementation of the England OP 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. This has been demonstrated, for example, via several open competitive bidding rounds for grant funding.
- 3.3. MEEF is funded by ERDF, supporting the England ERDF OP. The OP sets out the requirements for adherence to mandatory equalities 'cross-cutting' themes. The ERDF promotes equality in accordance with EU and national requirements.
- 3.4. In its original application to manage MEEF and receive the ERDF, Amber committed to ensuring that the principle of equality is integrated into all aspects of pipeline development, implementation, monitoring and evaluation. In addition, no applicant is treated less favourably than any other on the grounds of age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race (which includes colour, nationality, and ethnic or national origins); religion or belief; sex; or sexual orientation.
- 3.5. The low-carbon infrastructure in which MEEF invests (such as public buildings, including hospitals) ensures that the benefits are experienced by all people irrespective of being members of under-represented or disadvantaged groups, or having protected characteristics.

4. Other considerations

Key issues

ERDF requirements

- 4.1. The former Department for Communities and Local Government devolved responsibility for managing London's share of England's ERDF programme to the GLA. Its successor department, DLUHC, retains responsibility for the ERDF across the country. MEEF remains subject to the ERDF rules and guidance and any requirements set by DLUHC.

Challenge of committing the additional ERDF and London Green Fund returns

- 4.2. MEEF will prioritise committing the additional ERDF by December 2023, when the ERDF programme comes to a close. Once this is fully allocated (even if before December 2023), MEEF will then begin allocating the £30.2m LGF returns, with a view to maximising the level of investment achieved by the new closing date of December 2024. As noted earlier, it will become known in due course how much of the £30.2m will be accessed.

- 4.3. Amber may find it is unable to commit the full ERDF allocation prior to December 2023 and/or some of the LGF returns prior to December 2024. However, to mitigate this, there is a strong pipeline of investments on which the GLA receives regular updates. Attrition within the pipeline is inevitable, but a substantial number of investments have already been identified and there remains enough time to secure additional investments if needed. Nonetheless, any uninvested LGF returns will become available to the GLA for other uses.

Links to Mayoral strategies and priorities

- 4.4. MEEF helps to achieve the Mayor's ambition of London becoming zero-carbon by 2030 and is closely aligned with other Mayoral programmes such as: Retrofit Accelerator – Homes; Retrofit Accelerator – Workplaces; and the Local Energy Accelerator project.
- 4.5. By providing repayable finance to help establish low-carbon infrastructure, and encourage further investment in energy-efficiency measures, MEEF helps achieve key objectives in the London Recovery Programme's Green New Deal mission. In addition, MEEF supports the London Environment Strategy (which promotes energy efficiency and seeks reductions in CO₂), the London Plan (which includes activity to support energy infrastructure) and the Mayor's Economic Development Strategy for London (which seeks to create a supportive environment for businesses, entrepreneurs, and infrastructure).
- 4.6. MEEF investments contribute to London's share of the England ERDF OP targets. As part of its original appraisal, MEEF was assessed on its alignment with the London Economic Action Partnership's European Structural and Investment Funds Strategy.

Declarations of interest

- 4.7. The individuals involved in drafting and clearing this document do not have interests to declare. For the record, the lead officer who drafted this document sits on the MEEF Advisory Committee as a member.⁴ This committee is convened quarterly by Amber to oversee the progress of MEEF against its objectives. The committee is part of neither the management nor investment decision-making structure of MEEF, and the officer is unremunerated for this role.

5. Financial comments

- 5.1. A seven-month extension is required to continue with the delivery of MEEF. The fund currently invests in low-carbon sustainable projects across London.
- 5.2. This extension will allow Amber, which manages the fund on behalf of the GLA, more time to fully invest £30.2m of LGF returns, which was previously permitted under MD2865. Of this amount, £7.2m has been utilised, with the balance expected to be used by December 2024.
- 5.3. It is important to note that the £30.2m LGF returns have fully materialised and the proposed investment programme is not dependent upon future returns.

6. Legal comments

- 6.1. Sections 1 to 4 of this report indicate that the decisions requested of the Mayor concern the exercise of the GLA's general powers, falling within the GLA's statutory powers to do such things considered to further or that are facilitative of, or conducive or incidental to, the promotion of economic development and wealth creation, social development or the promotion of the improvement of the environment, all in Greater London. In formulating the proposals in respect of which a decision is sought, officers have complied with the GLA's statutory duties to:

⁴ The committee comprises Amber representatives, GLA officers and external representatives.

- pay due regard to the principle that there should be equality of opportunity for all people
- consult with appropriate bodies.

- 6.2. In taking the decisions requested, as noted in section 3, above, the Mayor must have due regard to the Public Sector Equality Duty under section 149 of the Equality Act 2010, namely the need to: eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010; advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, sex, age, sexual orientation, religion or belief, pregnancy and maternity, and gender reassignment) 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. To this end, the Mayor should have particular regard to section 3 (above) of this report.
- 6.3. Sections 1 to 4, above, indicate that the contribution will be up to £20m ERDF to MEEF; and that the fund's duration will be extended until 31 December 2024. Officers must ensure that the ERDF funding is awarded fairly, transparently and in accordance with the ERDF and DLUHC requirements. Officers must ensure the appropriate legal documentation is put in place and executed by Amber and the GLA before the use of the proposed additional ERDF, and before the fund's duration is extended.

7. Planned delivery approach and next steps

- 7.1. If this Mayoral Decision is approved, GLA officers will coordinate with Amber to ensure changes are made to the contractual documents governing MEEF.

Appendices and supporting papers:

None

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 either be published 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? No

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 – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Stuart Scott has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

Philip Graham 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 5 December 2022.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

Date

D. Gane

07/12/2022

CHIEF OF STAFF:

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

Signature

Date

D. Bellamy

03/12/2022