

# Mayor's London Climate Finance Facility

## Response to the Green Finance Institute's Options Report for financing London's journey to net zero

Sadiq Khan at Barbican Conservatory

### Key information

Publication type: General

Publication date: Thursday 29 June 2023

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## 1. Introduction: Financing London's net zero Ambition

Urgent action is needed to tackle climate change. We are seeing the impacts of climate change accelerate in London and globally. Last year London experienced drought, record temperatures and heatwaves that also led to wildfires across the city and the busiest day for the London Fire Brigade since the Second World War. Globally we saw the devastating impacts of flooding in Pakistan, which combined with a severe heatwave, a heavier than usual monsoon and melting glaciers, left over 2 million people without homes.

The need to take urgent action has never been clearer, both to reduce emissions and to adapt London for a changing climate. Based on overwhelming scientific evidence of the need to accelerate action, in 2021 the Mayor of London brought forward London's net zero goal by 20 years to 2030.

In early 2022, the Mayor published his preferred pathway to net zero by 2030, building on an analysis undertaken by Element Energy.[Reference:1](#) The Mayor's preferred 'Accelerated Green' pathway balances ambition with viability. It requires a significant acceleration in action across the city, achieving by 2030:

- Over 2 million homes and a quarter of a million non-domestic buildings to be properly insulated.
- 2.2 million heat pumps in operation in London.
- 460,000 buildings connected to district heating networks.
- A 27 per cent reduction in car vehicle km travelled.
- Fossil fuel car and van sales ended and enforced in line with Government's existing commitments.

Delivering this change can enhance London's productivity and support jobs. It will also create a fairer and healthier London for people to visit, live and work in, while reducing our energy consumption and reliance on volatile fossil fuel markets.

Delivering the 'Accelerated Green' pathway requires around £75 billion of infrastructure investment by 2030, and £108 billion out to 2050. That investment will need to come from many sources. It will require greater funding from central and local government, but the public sector alone cannot support the scale of investment required. Private capital can be a force multiplier for public funding, enabling large-scale renewable energy projects, energy-efficient infrastructure and retrofit, and sustainable transportation systems. It can also bring innovation, business expertise and new technologies to build London's sustainable future.

*"I will support the City to be the world leading centre for green finance, including setting up a new financing facility to bring more investment for infrastructure in London."*

Mayor of London, Sadiq Khan

The March 2020 report published by the London Sustainable Development Commission (LSDC), *'Financing for a Future London'*, highlighted three key barriers to delivering green financing investment:

1. Fragmented capacity and funding across boroughs and between the GLA and boroughs.
2. Fragmented infrastructure and ownership.
3. Misalignment between financial system priorities and the environmental and economic and benefits delivered by green projects, e.g. biodiversity and health benefits from green infrastructure investment; job creation from retrofit projects.

To address these barriers, the Mayor and GLA will partner with public authorities, national government, utilities, business, financial institutions and London residents.

The Mayor's 2021 manifesto committed to establish a finance facility to further his environmental aims. The GLA commissioned the Green Finance Institute (GFI) to advise on the approach and structures for a London Climate Finance Facility (LCFF).

Based on extensive desktop research, a review of international practice, and engagement with private sector investors and London boroughs, the GFI has today published its analysis of six potential structures for a facility.  
[Reference:2](#)

The GLA is grateful for their input and insight, which have guided the Mayor's planning and path forward to launch the facility. This paper sets out how the Mayor intends to take the facility forward.

## 2. The role of the UK Government and UK Infrastructure Bank

The Mayor recognises the important role that the UK Government can play in supporting greater mobilisation of finance. The government's updated Green Finance Strategy [Reference:3](#) is a welcome step in the right direction, although the pace and scale of action must match the urgency of the climate crisis.

The Strategy outlines important steps such as a UK green taxonomy, which would provide clearer definitions of green activities to support investment and ensure clear standards are met. Ensuring companies move swiftly to disclose their carbon footprints will be critical to its success.

The London Climate Finance Facility, working with London Councils and 3Ci, can support the UK Infrastructure Bank by providing a pipeline of investible projects that can accelerate both national, city-wide and local progress on net zero. The Mayor will continue to explore how the UKIB can support the Facility to increase the amount of available finance that can be deployed to projects in London and help attract private sector investment.

## 3. Green Finance Institute's options report

The Green Finance Institute outlined six potential options to create a London Climate Finance Facility and weighted up the benefits and drawbacks of each option. The six options are set out below.

### 3.1 Summary of options

- **Option 1**

A mechanism wholly owned and managed by the GLA, established as a subsidiary within the GLA. This could either be:

- a) Managed internally (Option 1a).
- b) Managed externally (Option 1b).

- **Option 2**

A mechanism overseen by the Greater London Authority but established as a separate, arm's-length entity and operated by an independent fund manager:

- a) Through the scaling up of an already existing facility (Option 2a).
- b) Through the establishment of a new facility (Option 2b).

- **Option 3**

A mechanism jointly overseen by the Greater London Authority and London's Local Authorities, established as a separate, arm's-length entity and operated by an independent fund manager.

- **Option 4**

A mechanism owned by its shareholders operating completely independently from the Greater London Authority, with the Mayor of London as a non-executive director.

Their report notes opportunities and challenges associated with each of these scenarios.

Option 1A, managed in-house by the GLA, allows for nearer-term investment, working with shovel-ready projects. This option would enable the GLA to pursue projects well-aligned with the Mayor's broader approaches and goals. Option 1B would also give the GLA significant control over project selection, while requiring less internal GLA resource relative to Option 1A. However, it would add another layer of process and planning, potentially slowing delivery. The GFI notes that, individually, either of these scenarios is unlikely to reach the GLA's desired impact, as private investors would prefer greater decision-making power. Additionally, if investments are unsuccessful, an internal approach could cause reputational risk to the GLA.

The arm's-length entity outlined in Options 2A and B would maintain the Mayor's input and connection to the facility while requiring less GLA capacity, and attracting private investors to engage in planning and selection processes. These scenarios reduce the Mayor's control compared to Options 1A and B. However, they offer significant potential gains for bringing in private investment – a core goal for the Mayor. Of the two, Option 2B is more viable, as there is not an existing structure available to be repurposed in line with Option 2A.

While Option 3 and 4 are seen as having the greatest potential to bring in private investment, they would give the Mayor little say or influence over the priorities and projects that the Facility supported. This could result in some instances in supporting projects which run contrary to the Mayor's policies or are not a priority for delivery of net zero. It could also result in the Facility focussing on 'quick and easy wins' and investing in projects that are already commercially viable and could secure finance elsewhere.

It is critical that the Mayor's green financing offer is additive to action that the private sector would take independently: high returns alone are not a hallmark of success. The Facility should also expand the realm of bankable projects and bring private finance to projects that might otherwise be overlooked by investors, including those where complexity is greater, risk higher, the business case not well understood, or large capital investments required before revenue flows later. In these instances, the public sector can play a clear and important role in reducing project risk, through clear and consistent policy and attractive rates of interest. It is not likely that an independent investment facility would achieve this.

### **3.2 Recommendations**

The GFI recommends a phased approach to rolling out the green finance facility. The report outlines a first-phase Option 1A, which would support the GLA's goals of moving rapidly on already-identified projects to set an example and begin building a track record of successful investment. In parallel, the GFI recommends that the GLA prepares for a transition to Option 1B by creating investment funds that can be run by an external manager. In the longer term, it recommends transitioning to Option 2B, seen as achieving the best alignment between GLA and private sector stakeholders' interests and desired levels of oversight.

## **4. Green Financing: challenges to overcome**

As we aim for the high levels of finance required to meet the Mayor's net zero and wider environmental aims, a number of challenges need to be addressed.

### **Challenge 1: developing a pipeline of investible projects**

Through its climate budgeting process, the GLA Group has identified projects that will help it achieve net zero operations, from fleets to property and other assets. The GLA has also worked closely with London Councils and boroughs to identify a city-wide pipeline of projects for net zero, participating together in the national 3Ci partnership. However, most projects require significant work to develop the technical and financial case for investment, struggle to get necessary institutional buy-in and access to technical support and are constrained by lack of a trained and ready workforce.

### **Challenge 2: incentivising public authorities to accelerate their programmes**

Most public authorities have net zero targets and many have declared climate emergencies. However, current funding falls well short of being able to deliver these targets. Accessible and affordable finance is needed to drive forward these ambitions. For many public bodies the most affordable available finance at present is the Public Works Loan Board. To accelerate effort, we will need to offer financing at competitive rates.

### **Challenge 3: Identifying new business models and revenue streams**

Not all projects have clear revenue streams or can pay back finance over the lifespan of the technology installed. In some cases, the social or environmental benefits of investments do not have an obvious repayment source or are hard to capture financially. The response will need to be different depending on the challenge faced.

### **Challenge 4: Giving the private sector confidence to scale up investment in London's projects.**

Net zero is an economy-wide activity. It requires diverse approaches: incentivising retrofit in a private home is different to retrofitting a school or investing in electric vehicle charging infrastructure. There is no one-size-fits-all approach, which can make investors cautious about considering projects that are more complex - even if they are essential for net zero.

Several factors affect complexity. These include the type of infrastructure (single plant or distributed, hard infrastructure or green infrastructure), ownership (publicly owned or a public/private partnership), source of repayment (funded through general obligation or producing revenue streams or secondary benefits), credit quality (borrower's credit rating), the credit pool (single or multiple investors), and whether performance can be guaranteed. Government can play a role in attracting private sector investment into the more complex projects, both by setting clear policy direction and reducing the cost of risk.

The Mayor's approach to green finance takes all these challenges into consideration.

## **5. The Mayor's existing programmes**

The Mayor of London has already pioneered several financial initiatives to tackle the climate emergency. These include:

### **Project development support**

The GLA currently offers project development support through its accelerator programmes: the Local Energy Accelerator, Retrofit Accelerator-Workplaces, Retrofit Accelerator-Homes, and the Social Housing Retrofit

Accelerator. These offer no-cost support to users at the point of service, including local authorities and anchor institutions to help develop projects that are ready for investment. Cumulatively, they are supporting 700 public sector building retrofits, and 31 local energy projects and the deep retrofit of 1,800 homes which will enable emissions reductions of over 65,000 tonnes of CO<sub>2</sub>. The first three accelerators named above are funded jointly by the GLA and the EU, with the existing programmes ending in 2023-24.

### **The Mayor's Energy Efficiency Fund (MEEF)**

MEEF was launched in July 2018 with funding from the GLA and the EU's European Regional Development Fund (ERDF). By May 2023, the Fund has mobilised £405 million into 20 projects, including investment of £101 million from the Mayor and ERDF. These will save 44 GWh of energy and 31,400 tonnes of CO<sub>2</sub> per year. MEEF is primarily a revolving loan fund, but a small portion of its funds can also be used as equity in projects. MEEF succeeded the London Energy Efficiency Fund, which ran from 2007-2013 and invested nearly £90m of capital and mobilised over £420m of external finance for low carbon projects. MEEF has been extended to 31 December 2024 to offer additional support to low-carbon infrastructure creation.

### **The GLA Group Power Purchase Agreement and Investment Platform**

Learning from Transport for London's progress in developing a Power Purchase Agreement (PPA), the GLA Group is now working on further PPAs to help deliver the collective energy needs of the whole group, while also supporting construction of new renewable energy in the UK. PPAs typically last for 10-20 years and provide a fixed energy price, giving long-term price security to the purchaser and protection from volatile energy market prices. They also provide revenue certainty to the developers. We expect the extremely high credit quality of the GLA Group, effectively mirroring UK sovereign risk and the stability of demand from the public services the group represents to make this proposition attractive to developers and their investors.

PPAs are relatively common in the marketplace, but, as an investor in renewable energy as well as a consumer, the GLA is exploring integrating its PPA with an investment platform to draw in greater financing. This will allow its own funds to invest alongside other financial investors, providing disintermediated finance. The efficiencies can be shared between the consumer (in the form of reduced PPA cost) and investors (in the form of improved risk-adjusted return). This novel model of integrating a PPA and investment platform could be replicated by other public sector organisations with large power demand.

## **6. The London Climate Finance Facility**

The Mayor has set the GLA the following mission for green finance:

*“Within this Mayoral term, establish a London Climate Finance Facility for London capable of securing sustained, high levels of private sector investment to advance climate related projects, accelerate progress towards the Mayor's ambitious environmental targets and address the scale of the challenge in ensuring a Net Zero London by 2030.”*

Mayor of London, Sadiq Khan

The Mayor's green finance aims over the decade are:

- To unlock billions of long-term, flexible private finance to support the decarbonisation of London's buildings, energy and transport systems, thereby tackling the triple dangers of toxic air pollution, climate change and congestion.
- To accelerate significantly the development and delivery of climate and environmental projects, working with strategic partners.
- To build on London's existing financing capabilities to secure investment for London and strengthen its competitiveness.

Those aims will be delivered through the following objectives:

- >Support and develop capacity among the GLA Group and strategic partners to shape project funding proposals, build coherent and innovative business cases, and articulate expected returns (revenue streams, ROI, and greenhouse gas savings) so that climate and environment projects can attract investment.
- Drive a sustained pipeline of investible projects from the GLA Group, London Boroughs, and Anchor Institutions at the speed and scale that contributes to net zero by 2030, and recognises the importance of a just transition.
- Develop investors' knowledge, expertise and understanding of climate related projects so that they are better able to assess investment risk and reward and make available increased levels of private sector finance.
- Identify and develop new finance approaches and business models to support delivery of London's environmental objectives.

The Mayor is now launching the London Climate Finance Facility, expanding the GLA's existing activities in the area of green finance. The Facility includes a Green Finance Fund (GFF), based on advice from the Green Finance Institute's report, and increased and extended project development support.

## 6.1 Project Development Support

A key finding of the GFI's report is the critical need for a pipeline of investible projects to enable the finance facility to achieve impact – and for assistance to build the project pipeline and ready projects for investment. Support is needed to take project concepts and develop the technical and financial cases so that they are 'finance ready'. In developing and actively supporting a sustained pipeline of projects we can help realise projects not just funded by the Green Finance Fund but also through other routes including government grants and private investors. The GFI work and associated discussions with public bodies and private financiers underlined the importance of this in securing greater levels of finance.

The GLA currently offers pipeline development support through its accelerator programmes: the Local Energy Accelerator (LEA), Retrofit Accelerator-Workplaces (RA-W), Retrofit Accelerator-Homes (RA-H), and the Social Housing Retrofit Accelerator (SHRA). These programmes offer no-cost support to users at the point of service, including local authorities and anchor institutions. Cumulatively, since 2016 they are supporting 700 public sector building retrofits, and 31 local energy projects and the deep retrofit of 1,800 homes which will enable emissions reductions of over 65,000 tonnes of CO<sub>2</sub>.

LEA, RA-W, and RA-H have leveraged over £200m capital investment to deliver decarbonisation projects. The free support the GLA provides to enable this is funded jointly by the GLA and the European Regional Development Fund. The existing programmes end during 2023-24.

The Mayor recognises the complexity of developing projects, and the GLA is committed to replacing its current accelerators with a single, integrated decarbonisation project support offer, which will play a key role in preparing projects to apply for and access funding and finance through to at least 2026. At the GLA's request, Bloomberg Associates has engaged potential users to solicit feedback on the programme's preliminary design. Findings from this process will guide planning to ensure that the offer is able to meet key user needs and maximise GLA resource. The key groups in London that the new programme will support are local authorities, the GLA Group (including Transport for London, the Metropolitan Police Service and London Fire Brigade), wider public sector organisations including anchor institutions (e.g. NHS, education), social housing providers, and community groups and cultural institutions.

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The Mayor is committing as part of the green finance offer an additional £18.7m (as per MD3133) funding to support the development of the pipeline through to at least March 2026. The new integrated zero carbon project development facility will be the GLA's main programme designed to create the pipeline of net zero projects needed to meet the Mayor's net zero target by 2030. The key groups in London the new programme will support are local authorities, the GLA Group (including Transport for London, the Metropolitan Police Service and London Fire Brigade), wider public sector including anchor institutions (e.g. NHS, education), social housing providers and community groups and cultural institutions.

## **6.2 Green Finance Fund**

In February 2022, the Mayor announced his intention to raise £500 million for zero-carbon projects by launching a green bond programme and committed £90 million to support this ambition. The first project made with recourse to the £500m was in technology to support the Ultra Low Emissions Zone, reducing the environmental and health damages caused by air pollution. This has since been followed by more projects led by the London Legacy Development Corporation for installation of solar membranes on the London Stadium, and Transport for London for replacement of streetlights, and London Underground station lighting LEDs, energy efficiency improvements to TfL buildings, and the installation of new solar panels in depots.

The criteria for investment were published earlier this year in a draft Green Finance Framework.[Reference:4](#)

Economic instability in 2022/23 made market conditions unfavourable for the GLA's planned green bond issuance. Green bond issuance requires reasonable prospects of achieving a rate better than that offered by the Public Works Loan Board (PWLb), the GLA's default source of borrowing. Based on market conditions at the time of publication, this is not expected in the near term. Nonetheless, the Mayor has established a Green Finance Fund, with the same ambition, using other resources available to the GLA, which will be refinanced later through green bond proceeds if favourable rates or other sources of funding can be secured.

The Green Finance Fund will provide loans with flexible terms. The exact cost to borrowers, which is expected in most cases to be less than finance from PWLB, will be determined taking account of factors including project impact and additionality. All lending will be done in line with internationally recognised Green Bond Principles and using the Framework mentioned above, so that if market conditions improve the GLA can refinance these



investments through a green bond programme. The process for application and assessment, while robust, has been made as light touch as possible to ensure that requirements are not onerous compared to other forms of available finance.

The offer of free technical support to develop projects, coupled with lending at rates better than PWLB, offer projects important savings in the costs of delivering projects. Details of the type of projects, size of funding, tenor and application progress can be found on the GLA website.[Reference:5](#)

### **6.3 London Climate Finance Facility: Thematic and Wider Public Sector Funds**

The Mayor will look to develop new thematic funds from 2024, using public sector capital to leverage private sector finance to offer additional, significant sources of finance to priority areas. Such funds could act as successors to the Mayor's Energy Efficiency Fund (MEEF) when it closes in 2024. In investigating thematic funds we will explore the best ways to attract additional, strategic funding from the public and private sector. During 2023 and 2024 the GLA will also consider the potential to set up new funds with other public sector investment partners to support the growing pipeline of projects in London and secure more finance for London's priorities. We will work with partners and the sector to establish if this broader partnership approach provides additional benefit to London.

## **7. Next Steps**

Building on the GFI's recommendations, the GLA is pursuing several actions in tandem to establish the phased approach to the London Climate Finance Facility, build and prepare the project pipeline, and to robustly engage private and public sector stakeholders. Informed by the GFI's options outline and the respective strengths and potential drawbacks of each scenario, the LCFF will use a combination of governance options.

For the purposes of the Green Finance Fund, where the principal focus is the GLA Group and well-developed projects from public sector partners and where the GLA is directly raising the finance, the Fund will be managed by an in-house team in the GLA Group Treasury function. This is considered appropriate as the majority of finance is likely to be allocated to the GLA Group and to partners whose governance and risk profiles are well understood. During 2023 a team was established within the GLA to help identify projects, assess their impact and conduct due diligence before making decisions on investment.

This governance model offers the best opportunity for both speed and independence in advancing decarbonisation projects. It also allows for a tailored approach based on project/user characteristics. Specifically, the GLA plans to oversee projects from the GLA group in-house, leveraging its existing expertise and understanding of these projects and beneficiaries to support near-term decarbonisation project delivery. The GLA is moving forward with this internal approach in 2023 to meet the immediate need to deliver net zero projects.

If future thematic funds are established to attract private sector investment alongside public funds, the GLA will consider using independent fund managers on the Facility's behalf, drawing on previous experience from the Mayor's Energy Efficiency Fund. As noted in the GFI report, this could help to draw in private sector investors, while continuing to allow the GLA to set direction in line with the Mayor's net zero targets. Over the coming

months, the GLA will explore whether this option would be appropriate in the long-term for LCFF or for any of its constituent funds. Further work will be conducted by the GLA in 2023 and 2024 on these options. For now, the GLA plans to oversee projects for its own group in-house, given its detailed knowledge of these projects and users, to make rapid progress with decarbonisation projects.

The Green Finance Fund opened for its first round of applications in June 2023 and GLA engagement managers are conducting ongoing outreach to potential users to better understand their pipeline and statuses of individual projects, and to build awareness of and interest in the Green Finance Fund. Initial outreach rounds have been targeted based on project pipeline submissions by functional bodies, local authorities, and anchor institutions in London. This outreach will continue long-term to build and sustain the project pipeline, and will gradually expand to a larger group of potential users.

The GLA has begun work on scoping a new integrated zero carbon project development facility which will be more ambitious and broader in scope and scale than its predecessors. The new facility will be the GLA's main programme designed to create the pipeline of projects needed to meet the Mayor's net zero target by 2030. The new integrated offer will target a launch of early 2024; there will be no gap between the existing accelerators and the transition to the new support offer. The importance of technical assistance is highlighted in the GFI's report, and aligns with best practice for pipeline development internationally identified by Bloomberg Associates, including, e.g. the New York City Accelerator and the Washington, DC Affordable Housing Retrofit Accelerator. The Mayor's commitment of nearly £14 million to the new support offer will play a critical role in preparing London's pipeline for investment, and to achieve net zero impact.

Partnerships are key to this work. The GLA will continue to work closely with the Green Finance Institute, London Councils, 3Ci, the London Anchors and with potential users including GLA functional bodies, London boroughs, and anchor institutions, and with the private sector investment community. These relationships will ensure that the GLA is able to act innovatively and accelerate its critical work to bring London to a net zero future.

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