



Emma Best AM
Chair of the GLA Oversight Committee

Sadiq Khan
Mayor of London
(Sent by email)

CC:
Shirley Rodrigues, Deputy Mayor for Environment and Energy, GLA

12 March 2024

Dear Mr Mayor,

Re: Green Finance Fund

I am writing to you in my position as Chair of the London Assembly GLA Oversight Committee regarding the Committee's investigation into the Green Finance Fund. This follows a meeting held by the Committee on 28 September 2023, which was attended by the following guests:

- Shirley Rodrigues, Deputy Mayor for Environment and Energy, GLA
- Catherine Barber, Assistant Director, Environment and Energy, GLA
- Enver Enver, Acting Chief Finance Officer & Director Group Finance & Performance, GLA
- Kenroy Quellennec-Reid, Head of Impact Investment & Analysis, London Treasury

We are grateful for the contribution made by the guests towards answering the questions from the Committee.

This letter addresses the Committee's findings and includes recommendations, based on the evidence obtained in the discussion at the meeting on the governance and programme arrangements of the Green Finance Fund.¹

¹ Agenda and minutes [GLA Oversight Committee | London City Hall](#), 28 September 2023

In June 2023, you announced a £500 million fund for projects delivering energy efficiency, clean transport, or renewable energy.² We heard during the 28 September Committee meeting about your £75 million budget provision and that it could potentially be used to subsidise the borrowing cost of those delivering the projects with Catherine Barber stating: *“we only do that when the cost savings or the payback from the projects are not themselves sufficient, just to make it an attractive proposition, so if they need that interest rate subsidy to make that a viable proposal.”*³ It is understood by the Committee that the £500 million funding would be to support the capital investment of environmental projects from the GLA Group and other strategic partners across London. Of the £500 million, Enver Enver informed the Committee that £185 million of the fund has been allocated to the following projects:

- £150 million to TfL for Ultra Low Emission Zone (ULEZ) infrastructure including cameras and signs.
- £5 million to the London Legacy Development Corporation (LLDC) for a solar membrane for the roof on the London Stadium
- £30 million to TfL LED lighting projects on the London Underground⁴

This Committee notes that at the 9 January 2024 Budget and Performance Committee the amount of the Green Finance Fund allocated remained at £185 million⁵, although further bids had been received through two rounds of Expressions of Interest. The first of these closed on 29 September 2023 and the published application timeline expects approval approximately four weeks from the end of the window.

Additionality of the Green Finance Fund

During the Committee meeting on 28 September 2023, it was stated by Catherine Barber that the GLA *“look for proof of additionality, so that the project would not have gone ahead if we hadn’t been helping out”*⁶ when deciding if the GLA should subsidise the interest rate offered to the project from the £75 million allocated by the Mayor. Catherine Barber also said *“We always say that we will provide finance competitively. We know that, for example, local authorities have access to the Public Works Loan Board (PWLB) so you would expect them to get at least a slim discount on that, but we do not want, obviously, to offer too much. If they are making savings or getting a payback from their investments, we are then not offering a generous subsidy on top of that. They just do not need it.”*

With this in mind, the Committee would like to highlight one of the TfL financed schemes. It has been reported that the ULEZ expansion could ‘generate up to £200 million a year.’⁷ At the Budget and Performance Committee on 4 January 2023, regarding the ULEZ financials, Patrick Doig stated: *“For the expanded zone, out to the Londonwide boundary, for the first full year of operation, which is not quite the same as the financial year, our central estimate is the net operating surplus will be*

² [As London Climate Action Week continues, Mayor launches new £500m fund to support net zero by 2030 | London City Hall](#), 29 June 2023

³ P3, [GLAOC Transcript](#), 28 September 2023

⁴ P5, [GLAOC Transcript](#), 28 September 2023

⁵ P16 [B&PC Transcript](#), 9 January 2024

⁶ P3, [GLAOC Transcript](#), 28 September 2023

⁷ [ULEZ: Charges and fines raised nine-figure sum in 2022 - BBC News](#), 13 June 2023

£200 million.”⁸ Although, Enver Enver stated that “it is usually the lowest possible credit risk organisations that have got a similar credit rating to the GLA that we would lend to.”⁹ TfL kept a high credit rating through the past few years, with some improvements in ratings since the pandemic.^{10 11}

At the Budget and Performance Committee on 19 December 2023 Patrick Doig the TfL Group Finance Director confirmed that “we [TfL] do have other sources of finance available, for example we can access loans from the UK PWLB, but the GLA Green Finance Fund provided the best value for money source of finance for us, therefore we made an application to that and that was approved.”¹² This Committee notes that any discount to TfL will be funded from the £75 million allocated by the Mayor.

The Committee has concerns that using the Green Finance Fund to finance this project has had no discernible impact on the funds objectives as the Committee suggests that TfL could have funded the expenditure for the infrastructure to support the implementation of the ULEZ expansion from the PWLB.

Recommendation 1

The Green Finance Fund should be explicit about project additionality, ensuring that it is funding projects that would not otherwise have proceeded without the funding.

Budget provision - £75 million

As highlighted above, you made £75 million available to support the Green Finance Fund and to allow borrowing cost for the delivery of green projects to be subsidised. The Committee is concerned over the risk of a low level of deliverable applications for the fund. The Committee has not seen compelling evidence that the £75 million has been allocated in a meaningful way to support your ambitious target to meet the Net Zero goal by 2030.

During the Committee meeting on 28 September, Catherine Barber explained the use of the £75 million: “There are criteria that we apply to decide whether to then reach into the £75 million that the Mayor has made available. There is the £500 million of financing which we can offer as loans, but then to make that an attractive package, either by helping to spread when the repayments have to come in or to make the interest rate a bit more attractive, we can use some of that £75 million to soften it a bit to make it an attractive proposition.”¹³

Recommendation 2

The Committee would like to see a full list of applications for the Green Finance Fund and those projects that are being taken forward and recommends that clear criteria are set out for the use of the £75 million.

⁸ P12, [Budget and Performance Committee Transcript](#), 4 January 2023

⁹ P23, [GLAOC Transcript](#), 28 September 2023

¹⁰ [TfL credit rating | London City Hall](#)

¹¹ [Ratings, TfL](#), accessed March 2024

¹² P10 [B&PC Transcript](#), 19 December 2023

¹³ P3, [GLAOC Transcript](#), 28 September 2023

Criteria

The criteria in the draft Green Finance Framework for the Green Finance Fund requires project applications to be in the areas of:

- energy efficiency
- clean transport
- renewable energy.¹⁴

In the Committee meeting on 28 September 2023, the Deputy Mayor for Environment and Energy explained that the choice for the three areas of projects was *“the ones we have identified because those are where the biggest emissions’ reductions can happen”*¹⁵. Whilst the Committee believes reducing emission rates is important, the Committee has concerns this could be too restrictive and could be contributing to the target level of funding allocated by the end of the financial year being only a further £65 million. In the Committee meeting on 28 September 2023, Catherine Barber stated: *“I think we would be doing pretty well if half of the money was allocated by the end of this financial year”*, with further comments from Catherine Barber that *“we wanted to have two waves, or two rounds of collecting project ideas by the end of this financial year.”*¹⁶ The Committee is concerned that this allocation is too slow to meet your ambitious Net Zero 2030 target.

The Committee has examined your draft London Green Financing Framework published in April 2023. It noted that this did not reference agriculture and suggests that this is a possible way to enhance the programme. The 10 November 2022 Environment Committee heard from Prashant Vaze (Senior Fellow, Climate Bonds Initiative, and former member of the UK Green Technical Advisory Group) that: *“There has been some thought about agricultural projects, which are reducing flood defence costs - or flood damage costs - of creating some kind of income stream from the insurance industry. I am not aware that has often been done, but the concept there is that if you are developing some wetlands upstream of an area that is likely to be flooded, and the likelihood of buildings downstream being flooded is reduced, then that will reduce the cost of pay-outs that the insurance industry makes. That is something that could be explored.”*¹⁷

In the Committee meeting of 28 September 2023, the question of whether the proceeds could be used for agriculture was put forward, with the response from Deputy Mayor for Environment and Energy being: *“Not yet. We talked about adaptation earlier but I think similarly any of those sorts of areas that are out with the current terms of reference, I think we could only move on when I think we got more than enough demand for finance from those areas before we move onto the others, but that’s, as I said, we are keen to look at other thematic areas like adaptations, nature-based solutions and so on.”*¹⁸

Although there is a complication with capturing potential savings for this type of project, the Committee recommends that the GLA should not exclude these and other projects that could reduce carbon emissions and mitigate flooding. As this would potentially be of benefit not just from an environmental perspective but also a cost saving perspective.

¹⁴ [Draft London Green Financing Framework](#), April 2023

¹⁵ [Appendix 1 - Draft GLAOC Transcript.pdf \(london.gov.uk\)](#)

¹⁶ P6, P7, [GLAOC Transcript](#), 28 September 2023

¹⁷ [Environment Committee](#), 10 November 2022

¹⁸ P16, [GLAOC Transcript](#), 28 September 2023

During the meeting on 28 September 2023 comments from Enver Enver confirmed the likely under subscription: *“I’d rather we have the very lucky problem of being oversubscribed but at the moment we’ve been asking for applications and haven’t been in that luxurious position of having too much choice”*.¹⁹ This supports the view that the criteria may be too rigid, or that the terms of the Green Finance Fund are not attractive enough for those that are eligible for the funding.

The Committee was encouraged to see that the GLA’s Green Financing Framework was awarded an ‘Excellent’ rating in its Second Party Opinion²⁰. However, the Committee remains concerned about the scope of the framework and the current scale of allocations.

Recommendation 3

You should consider widening the scope for projects eligible for funding, and look into options to make the programme more attractive.

36 months ‘look back’

The draft London Green Finance Framework states that ‘for capital expenditures, a look-back period of up to 36 months prior to the time of debt issuance will be applied.’²¹ In the Committee meeting²² on 28 September 2023, the Committee heard that the funding could be applied to projects that have already been delivered. Kenroy Quellennec-Reid, Head of Impact Investment and Analysis at London Treasury stated: *“it is a standard condition within the bond market, whereby if you go to the bond market to secure funding, that funding can be used to finance projects that have started up to three years ago. You can refinance projects that have started up to three years ago. We have included that in our draft Framework. It is there as an option because, as I mentioned previously, not having full control over the nature of the projects coming through, we wanted things to be as flexible as possible and we tried to create a framework to facilitate that. Whether we will use it or not, we are not sure yet. We have not got anything up to that length of period. It is just the flexibility to have if necessary.”*²³

Once again, drawing attention to Catherine Barber’s comment at the Committee meeting on 28 September 2023: *“we also look for proof of additionality so that the project wouldn’t have gone ahead if we hadn’t been helping out.”*²⁴ The Committee questions if funding needs to be provided if a project is already being delivered, particularly as the Deputy Mayor for Environment and Energy stated *“Obviously, we want to fund new projects. The work of Catherine’s team through the Accelerators is to identify new products from boroughs, universities and so on, identifying potential projects, encouraging them and helping them with business cases so that they are feasible and can apply, preferably to us, or PWLB or whatever”,* further adding *“I would not want to leave you thinking that people are just going to come in with projects that have already been funded”*²⁵.

¹⁹ P4, [GLAOC Transcript](#), 28 September 2023

²⁰ [Sustainable Fitch: Second-Party Opinion Provided for the Greater London Authority’s Green Financing Framework](#), 5 November 2023

²¹ [Draft London Green Financing Framework](#), April 2023

²² P3, [GLAOC Transcript](#), 28 September 2023

²³ P11, [GLAOC Transcript](#), 28 September 2023

²⁴ P3, [GLAOC Transcript](#), 28 September 2023

²⁵ [Appendix 1 - Draft GLAOC Transcript.pdf \(london.gov.uk\)](#)

Recommendation 4

You should set a clear bar for when the 36-month ‘look back’ process is appropriate and consider excluding it from the eligibility criteria.

Green Jobs

You stated in your press release for the Green Finance Bond:

“I am leading the way by committing £90 million to help unlock more than £500 million of private investment through Green Bonds to support low carbon projects and create the green jobs that will help make our target of a zero-carbon capital a reality by the end of this decade.”²⁶

As currently the market makes it uneconomical for the Green Finance Bond programme to proceed, the Green Finance Fund is in place, with the same principles regarding criteria for projects. As highlighted previously, the Green Finance Fund allows for applications within the GLA Group, Local Authorities, NHS bodies, universities and colleges within any of the 32 boroughs and the City of London, and social housing providers. These are projects with finance allocated to existing resources.

In the Committee meeting on 28 September 2023, we heard from Catherine Barber that: *“we do not specifically ask about job creation in the application process, I believe. Kenroy, correct me if I am wrong. We ask about wider environmental and social impacts. The projects that we are talking about are within the GLA group and I do not believe that people have come to us saying we need to therefore expand our staffing to do this. I think what is happening is that staff who are employed by the GLA group are being given the green light, no pun intended, to go ahead with projects that will make a difference for carbon savings, energy savings, etc. If it were not for that financing that we are making available, for example, in TfL, perhaps they would be doing other maintenance and renewables projects, but because this money is available affordably, it is allowing them to do projects that might otherwise have been delayed.”²⁷*

Kenroy Quellennec-Reid stated: *“the core indicators are environmental, but we have given projects within the application the ability to include wider impacts that might derive from the projects. I can’t remember off of the top of my head if jobs created was and has been included but certainly, we would actually encourage and ask them to report wider impacts, potentially such as jobs.”²⁸*

Recommendation 5

The Committee recommends that the Green Finance Fund includes the capture and reporting of the Green Jobs created by the projects.

As part of a related investigation into Climate Budgeting and the Green Finance Fund, the Budget and Performance Committee discussed the Green Finance Fund and its ability to allocate funds to smaller-scale projects, through a London borough to establish a finance scheme for small-scale home retrofits. In the 21 September Budget and Performance Committee, Luke Webster, GLA Chief Investment Officer and Catherine Barber, GLA Assistant Director, Environment and Energy discussed the potential of financing smaller-scale projects through innovative structures, such as supporting a

²⁶ [Mayor announces £90 million towards new green bonds | London City Hall](#)

²⁷ P25, [GLAOC Transcript](#), 28 September 2023

²⁸ P26, [GLAOC Transcript](#), 28 September 2023

London Borough to establish a finance scheme that could facilitate smaller scale funding such as home retrofits. Luke emphasised that *“What we could do now, however, is if a borough wanted to create such a scheme - and there are some who are thinking of these things - we could. finance at the borough level through the Green Finance Fund”*.²⁹ The GLA Oversight Committee supports this approach and believes that smaller-scale projects as such would benefit from the Green Finance Fund.

The Committee would welcome a response to this letter by 19 April 2024. Please send your response by email to the Committee’s Clerk, Nikoleta Kemp (nikoleta.kemp@london.gov.uk).

Yours sincerely,
Emma Best AM



Chair of the GLA Oversight Committee

²⁹ [\(Public Pack\) Appendix 2 - Budget and Performance Committee Transcript - 21 September 2023 \(Green Finance Fund\) Minutes Supplement for Budget and Performance Committee, 21/09/2023 10:00 \(london.gov.uk\) \(p4\)](#)

Appendix 1

Recommendation 1

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Recommendation 2

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You should consider widening the scope for projects eligible for funding, and look into ways to make the programme more attractive.

Recommendation 4

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Recommendation 5

The Committee recommends that the Green Finance Fund includes the reporting of the Green Jobs created by the projects.