

**Report to:** West Yorkshire Combined Authority

**Date:** 5 April 2018

**Subject:** **Energy Accelerator**

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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	N/A

## Purpose of this report

- 1.1 To update the Combined Authority on the Energy Accelerator (Accelerator) including:
  - The draft Contract for Funding between the EIB (European Investment Bank) and West Yorkshire Combined Authority (Combined Authority).
  - Highlighting potential risks for the Combined Authority and project sponsors if the Combined Authority chooses to sign the contract.
  - A recommendation from the Green Economy Panel (GEP) (paragraph 2.27, 2.28).
- 1.2 Subject to consideration, approve the signing of the EIB Contract and progress through decision point five with all final approvals subject to approval by the Managing Director (paragraph 2.31).

## 2 Information

- 2.1 The Accelerator is a key initiative under priority three of the Strategic Economic Plan (SEP) which aims to create a zero carbon energy economy by 2036. It is a new innovative programme. It will provide a project development support service to remove current barriers relating to a lack of project

development funding and expertise. This current lack of support is preventing investment in low carbon capital projects across the Leeds City Region (City region). It will provide a service to the public, private, academic and community sectors to develop projects around three key themes:

- Commercial & domestic retrofit including integration of renewable energy into the built environment.
- District heat networks.
- Streetlighting.

2.2 The Accelerator will not deliver capital programmes, it will bridge a current market failure by providing robust technical and commercial advice that will enable projects to develop and proceed to implementation. It is anticipated to enable approximately £60 million - £100 million of capital investment in low carbon projects to happen across the City Region.

2.3 The Accelerator has been in development since 2015. Progress to date includes:

- The creation of a pipeline of low carbon energy projects from across the Leeds City Region that formed the basis of the ELENA bid.
- The Combined Authority approved £640,000 of Local Growth Fund (LGF) money for the Energy Accelerator on 20 November 2015. This is match funding for the ELENA grant.
- Internal approval to apply for the ELENA funding.
- An ELENA application was made to the EIB in July 2016 and revised May 2017 (on the EIB's advice).
- Subject to securing the ELENA funding, remaining approvals needed to establish the Accelerator were approved by the Combined Authority on fifth October 2017 (see paragraph 2.31).

2.4. The Accelerator is dependent on the EIB ELENA fund (a fund for technical assistance focused on the implementation of energy efficiency, distributed renewable energy projects and programmes) and the LGF which has already been secured. A bid was made to the ELENA fund in 2016 and revised in May 2017 on the advice of the EIB.

2.5 The total value of the project is estimated at £3.817m<sup>1</sup> funded by:

- £820,000 LGF (of which some is allocated as match funding towards the ELENA grant); and
- EUR 3.513m (£2.997m<sup>2</sup>) EIB ELENA funding.

#### ELENA funding

2.6 On the 27 December 2017 the Combined Authority received confirmation that the ELENA application had received formal approval from the European

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<sup>1</sup> Based on [EC's March 2017 exchange rate](#)

<sup>2</sup> See 1

Commission. The Combined Authority has since received official written confirmation and a draft contract for funding to review and sign.

- 2.7 The Combined Authority's ELENA application included project development support (commercial, technical advisory services and staff) totalling EUR 3.513million. It is anticipated that it will support a pipeline of approximately 21 low carbon schemes across the Leeds City Region.
- 2.8 The Accelerator will be delivered through a new project delivery team. The team comprises of two Combined Authority internal staff and four procured part – time external advisors who will also be supported by a wider team of external advisors. This team is responsible for developing and delivering the projects supported offered through the Accelerator:

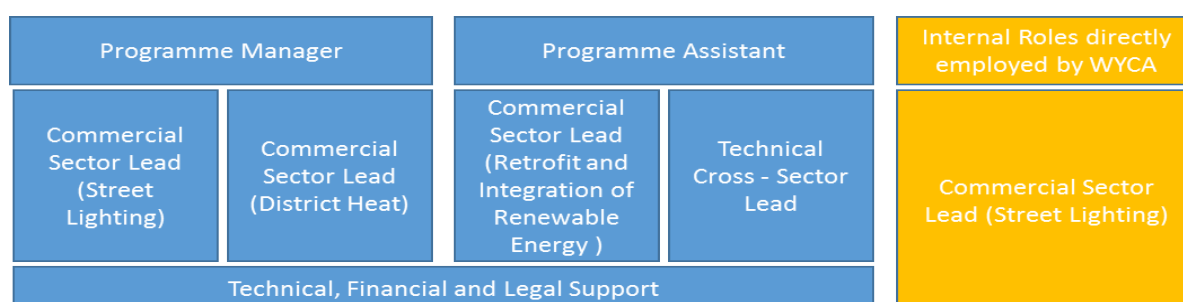


Figure 1. EA Project Delivery Team

- 2.9 The Accelerator has already developed a governance and appraisal framework. All governance is overseen by the Combined Authority and through its assurance processes at appropriate stages. Once operational, recommendations for each project will be developed by the Accelerator's Project Delivery Team and an Advisory Group, (currently made up of three representatives from the Green Economy Panel (GEP)). This group is being reviewed currently. All support that goes through the Accelerator will be approved by the Managing Director of the Combined Authority. The GEP will also continue to receive regular progress updates on the Accelerator.

#### EIB Contract Summary

- 2.10 Like many similar European funding streams, the EIB contract includes a range of special and general terms and annexes. The following are unique to the EIB ELENA contract.
- 2.11 The EIB will contribute a maximum of 85 percent (EUR 3,513,847; £2.997m<sup>3</sup>) of the total project costs for the Accelerator. The remaining 15 percent will be funded by the Combined Authority, using previously approved LGF (EUR 633,209<sup>3</sup>; £540,000).

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<sup>3</sup> Based on the EC's March 2017 exchange rates

- 2.12 The contract requires an investment programme to deliver investment (either actual investment in a project or a published procurement for a forthcoming investment) that is at least 20 times the bank's contribution. This 1:20 leverage requirement translates into the Accelerator delivering EUR 70 million (£60 million) of capital investment. The investment programme must also be delivered with 3 years.
- 2.13 At the time of applying for the ELENA funding, the pipeline of low carbon projects developed by the Combined Authority with its partners was projected to attract £98 million (EUR 115 million) of capital investment (1:33 leverage factor).
- 2.14 The ELENA grant is paid in instalments, 40 percent at the outset, 30 percent after 18 months and 30 percent on completion of the Accelerator. The second payment will be reduced if less than 70 percent of the first tranche of funding has been spent at the 18 month milestone.
- 2.15 As the payments are in Euros at the prevailing rates, the Combined Authority will need to manage the fixed rate risks.
- 2.16 There are a range of financial reporting requirements. Including:
- Inception report;
  - Bi-annual progress reports;
  - Interim report (18 month milestone); and
  - Final implementation report

#### Unique risks

- 2.17 The EIB requires the Combined Authority, as the final beneficiary, to sign the Contract for Funding. In order to do this both the Green Economy Panel and LEP Board have been asked to consider and make recommendations on signing the contract to the Combined Authority. To support this process the Combined Authority need to be aware of any potential unique risks, impacts and any residual risks associated to the EIB contract. The key potential risks, their impact on the Combined Authority and where the risks potentially occur within the programme are summarised below and in **Appendix 1 and 2**:

<b>Risk</b>	<b>Impact</b>	<b>Residual risk <u>before</u> mitigation</b>
Risk of reduced EIB 2 <sup>nd</sup> payment at the 18 month mid-point (see para 2.14) due to under performance	Reduced payments, programme Stalls	A risk the EIB reduce payment of the second payment ( Maximum EUR 1.054m)
Risk of reduced final payment / clawback from the EIB at the completion of the programme (after the	The Combined Authority has to fund programme costs or pay back funding	A risk of clawback. Maximum is EUR ~1.405m (this is the fixed costs that the Combined Authority would incur over the duration of the programme for

full 3 years) due to underperformance		the Project Delivery Team). All other costs associated would not be incurred due to our project appraisal processes and any addition funding drawn down and unused would be repaid to the EIB.
Loss of EIB funding by failing to contract within an acceptable timescale	No funding	Loss of EIB funding
Out of date pipeline of projects due to EIB delays in awarding the funding	Programme delays, possible need to revise the delivery model and funding is reduced / programme stalls	A risk the EIB reduce payment of the second payment (EUR 1.054m) / final clawback
Project Sponsors fail to use the EA	Limited programme and reputational damage	The residual risk depends on Project Sponsor appetite. This will be gauged as the pipeline of projects is refreshed.
Limited amounts of Project Sponsor sign up due to requirement to progress projects if feasible or face clawback.		

2.18 There is a range of specific risks that all project sponsors that use the Accelerator will be exposed to. The unique key risks, impacts and where they could potentially arise for Project Sponsors within the Accelerator are summarised below and in **Appendix 1 and 2**:

<b>Risk</b>	<b>Impact</b>	<b>Residual risk <u>before</u> mitigation</b>
Responsible for delivering <sup>3</sup> a project	If the sponsor fails to deliver	If the sponsor fails to deliver within the 3 years required,

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- <sup>3</sup> Investment occurred during the contract period which has been directly supported by the Accelerator; or
  - b) the estimated value of the contract for further investment which has been supported by the Accelerator, as published in the relevant notice relating to the procurement procedure for this investment and in accordance with applicable procurement rules and statutes.
  - c) to qualify for inclusion under b, the related budget must have been fully secured prior to publication and hence the award cannot be made conditional on the availability of budgetary resources. (Source: EIB Contract)

(either actual investment in a project or a published procurement for a forthcoming investment), within the 3 year duration of the EIB contract	this target, partial or full claw back is possible from the Combined Authority.	claw back is possible from the Combined Authority.
A project fails to meet the 1:20 leverage target	If the sponsor fails to deliver this target, partial or full claw back is possible from the Combined Authority.	If the sponsor fails to deliver this target, partial or full claw back is possible from the Combined Authority.

#### Mitigation actions to reduce residual risks

- 2.19 There is a range of mitigating actions identified in Appendix 1 that aim to reduce the impact and likelihood of the risks and any residual risks to the Combined Authority. Appendix 2 also illustrates where the key risk identified could potentially arise within the Accelerator programme. Paragraphs 2.20 - 2.23 outline some of the ways risks to the Combined Authority will be mitigated.
- 2.20 The Accelerator's Project Delivery Team which is made up of a range of energy experts (para 2.8), will play a vital role in developing and monitoring the projects that receive support. They will work with potential project sponsors to identify suitable projects that meet the ELENA funding requirements of a 1:20 leverage factor and the three year delivery timescales. The Programme Manager and Assistant will also be responsible for monitoring the experts and the projects that go through the Accelerator. They will ensure effective programme management throughout the three year programme. This includes monthly monitoring of the pipeline of projects, the EIB budget, the 1:20 leverage factor and other deliverability targets. Only schemes that are anticipated to meet the 1:20 leverage target and can be deliverable within the 3 year funding envelope will progress through the Accelerator. The Team will also be responsible for the removal of projects and the updating of a wider pipeline of projects that can be delivered should a project fail to progress through the Accelerator.
- 2.21 A contract between the Combined Authority and the procured advisors is being developed. It includes achieving the 1:20 leverage factor, payment terms, staffing requirements and professional indemnity (not exhaustive). It also includes a secondary (non-mandatory) above the 1:20 leverage factor target.

- 2.22 There will also be a contract between the Combined Authority and each project sponsor that uses the Accelerator. This is currently being drafted and will outline what support will be offered and a range of terms to ensure the project meets the EIB's requirements. This includes the process for clawback by the Combined Authority should a sponsor fail to meet its contractual obligations.
- 2.23 The Combined Authority has recently refreshed the indicative pipeline of low carbon projects that fed into the original ELENA application. There were concerns that as the pipeline was developed in 2016/17, some projects may be out of date and in need of updating.
- 2.24 The refresh included engagement with potential project sponsors and also the Combined Authority's Directors of Development. Whilst a number of projects have developed on their own, some projects are no longer needed. As it stands, the refreshed indicative pipeline contains 11 projects which are estimated to deliver an overall leverage factor of 1:34. All potential sponsors were engaged in this process and are aware of the Accelerator's requirements and unique risks (paras 2.12, 2.18, 2.22, 2.25). It will be the Delivery Team's job to use their expertise to further refine this indicative pipeline and develop a wider pipeline of new projects that will use the Accelerator's support.
- 2.25 Whilst a full range of mitigating actions are proposed to reduce the impact and likelihood of key risks and their impacts occurring, there are some residual risks that will remain. Appendix 1 outlines these residual risks and Appendix 2 outlines where they arise. It should be noted that these are the maximum level of exposure the Combined Authority or Project Sponsor would be subjected to. In reality the mitigating actions planned will greatly reduce the likelihood and impact of these residual risks.

Combined Authority risks:

<b>Risk</b>	<b>Residual risk <u>after</u> mitigation</b>
Risk of reduced 2 <sup>nd</sup> EIB payments at the 18 month mid-point (see para 2.14) due to under performance	Less likelihood but still a risk the EIB reduce payment of the second payment (maximum EUR 1.054m)
Risk of reduced final payment / Risk of clawback from the EIB at the completion of the programme (after the full 3 years) due to under performance	Less likelihood of clawback. Maximum is EUR 1.405m (this is the fixed costs that the Combined Authority would incur over the duration of the programme). All other costs associated would not be incurred due to the project appraisal processes and any addition funding drawn down and unused would be repaid to the EIB.
Loss of EIB funding by failing to contract within an acceptable timescale	Less likelihood of losing the funding or delays.

Out of date pipeline of projects due to EIB delays in awarding the funding	<p>Less likelihood of delays / clawback. The pipeline of projects has been recently refreshed.</p> <p>The residual risk depends on Project Sponsor appetite. This will be gauged as the pipeline of projects is refreshed.</p>
Project Sponsors fail to use the EA	
Limited amounts of Project Sponsor sign up due to requirement to progress projects if feasible or face clawback.	

**Project Sponsor risks:**

<b>Risk</b>	<b>Residual risk after mitigation</b>
Responsible for delivering the project (either actual investment in a project or a published procurement for a forthcoming investment), within the 3 year duration of the EIB contract	Likelihood of claw back reduced. Value is dependent on the support agreed.
A project fails to meet the 1:20 leverage target	Likelihood of claw back reduced. Value of claw back is dependant of the support agreed.

**Establishing the Energy Accelerator**

- 2.26 Over the past few months, and subject to securing the ELENA funding, the Combined Authority has approved a range of recommendations to establish the Accelerator quickly.
- 2.27 The Green Economy Panel considered this paper on 20 February 2018. They welcomed the offer of funding from the EIB. Whilst they noted the unique risks associated to the EIB ELENA funding, they felt that some general elements were similar to other European funding streams that the LEP, Combined Authority and its constituent councils have experience of managing and, currently, actively support. They also felt that Accelerator is a truly innovative programme that addresses a local current market failure, and this is an area that the Panel felt that the LEP and Combined Authority should be actively pursuing to deliver the ambitions set out in the Strategic Economic Plan. Their main concern relating to the EIB contract was with the City Region's indicative pipeline of projects and how robust this was given the lengthily delays



incurred. They welcomed the refresh of the pipeline. Once completed, the results were shared with the Panel's Chair.

- 2.28 As the refresh estimated an indicative pipeline with a combined leverage factor of 1:34, the Panel recommended to the LEP Board that the Combined Authority sign the EIB contract. They also stressed the importance of effective management throughout the programme (para 2.20) to ensure the programme is delivered and meets the EIB contractual obligations.
- 2.29 The LEP Board will be considering a paper on 27 March 2018. Its recommendation will be reported to the Combined Authority at its meeting on 5 April 2018.
- 2.30 Subject to Combined Authority approval, there are a range of actions that need to be taken in order to establish the Accelerator. The table below summarises the major activity and indicative milestones/timescales.

Activity	Timescales
1. Seek LEP recommendation and CA approval to sign the EIB contract and establish a date for the contract to come into force.	27 March 2018 5 April 2018
2. Recruitment of 2 Combined Authority staff (1 – Programme Manager and Programme Assistant)	April – June 2018
3. Procure external Advisors	April – June 2018
4. Commence engagement with Project Sponsors and refresh the pipeline of projects for support	February 2018 – onwards
5. Final approvals to establish the EA, via the Combined Authority's assurance processes (see paragraph 2.31)	End of June 2018
6. Sign EIB Contract	By end of April 2018
7. EIB and Combined Authority contract comes into force	July / Aug 2018
8. Launch	September 2018

- 2.31 Subject to Combined Authority approval to sign the contract, all remaining approvals needed to establish the Accelerator were outlined to the Combined Authority on fifth October 2017. A summary is highlighted below:
- Accelerator proceeds through decision point four of the assurance process and work commences on activity five.
  - Indicative approval to the £2.997m ELENA funding is given with full approval to spend being granted once the scheme has progressed through the decision point five.
  - Future approvals are made in accordance with the approval pathway outlined in the submitted report including decision point five through a delegation to the Combined Authority's Managing Director following a recommendation by Combined Authority's Programme Appraisal Team.

### **3 Financial Implications**

- 3.1 The Combined Authority's Finance Team have reviewed the EIB contract, VAT implications and are aware of the risks covered in this report.
- 3.2 Throughout the project there is a risk on foreign exchange rates and the payments we receive in Euros. Any loss on this has to be met by the Combined Authority.
- 3.3 The payment profile on the 36 month project is 40 percent month two, 30 percent month 18 and 30 percent month 38 (two months after project end). There will potentially be periods where the Combined Authority will need to cash flow the project.

### **4 Legal Implications**

- 4.1 The Combined Authority's Finance Team have reviewed the EIB contract, and are aware of the contractual risks covered in this report.
- 4.2 The Combined Authority's Legal Team are drafting all legal contracts linked to the Accelerator and are aware of the contractual risks covered in this report.

### **5 Staffing Implications**

- 5.1 Subject to Combined Authority approval, there will be a need for some existing Combined Authority staff to work on the Accelerator whilst the new Delivery Team is being established. This is estimated to be three officers from the Policy and Strategy Directorate, on a part time, ad-hoc basis. Work programmes have been revised to account for this additional work.

### **6 External Consultees**

- 6.1 The Green Economy Panel and LEP Board have been consulted.

### **7 Recommendations**

- 7.1 That the Combined Authority approves the signing of the EIB Contract and progress through decision point five with all final approvals subject to approval by the Managing Director (paragraph 2.31).

### **8 Background Documents**

Combined Authority, 20 November 2015 – Item 5 Growth Deal Delivery and Budget Approvals

Combined Authority, 6 October 2017 – Item 5 Capital Spending and Approvals

Green Economy Panel, 20 February 2018 – Item 8 Energy Accelerator Update

LEP Board, 27 March 2018 – Item 8 Energy Accelerator Update

## **9 Appendices**

Appendix 1 - Major risks for the Combined Authority

Appendix 2 - The Energy Accelerator Project Appraisal Process and key locations of risks.