
Report to: Green Economy Panel

Date: 20 February 2018

Subject: **Energy Accelerator Update**

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1 Purpose of this report

1.1 To update the Green Economy Panel on the Energy Accelerator (EA) including:

- The Contract for Funding of the Project Development Services between the EIB (European Investment Bank) and West Yorkshire Combined Authority (Combined Authority).
- Key corporate risks for the Combined Authority and Project Sponsors if the Combined Authority choose to sign the contract.

1.2 Subject to consideration, the Panel are also asked to make recommendations to the LEP Panel about the Combined Authority signing the EIB contract.

2 Information

2.1 The EA is a key initiative under Priority 3 of the Strategic Economic Plan (SEP) which aims to create a zero carbon energy economy by 2036. It is a programme providing a new project development support service that will remove the barriers relating to lack of project development funding and expertise that are currently preventing investment in low carbon capital projects in the City Region. The EA 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.
- Street Lighting.

- 2.2 The EA 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. The EA will enable ~£98m of capital investment in low carbon projects to happen across the city region.
- 2.3 EA is dependent on the European Investment Bank (EIB) ELENA fund (a fund for technical assistance focused on the implementation of energy efficiency, distributed renewable energy projects and programmes) and the Local Growth Fund (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.
- 2.4 The total value of the project is estimated at £3.817m¹ funded by:
 - £0.820m Local Growth Fund (of which some is allocated as match funding towards the ELENA grant); and
 - EUR 3.513m (£2.997m²) EIB ELENA funding.

ELENA funding

- 2.5 On the 27 December 2017 the Combined Authority received confirmation that the EIB ELENA application had received formal approval from the European Commission. The Combined Authority has since received official written confirmation and a draft Contract for Funding of the Project Development Services with the EIB to review and sign.
- 2.6 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.
- 2.7 The EA will be delivered through a new Project Delivery Team. The team comprises of six posts, two Combined Authority internal staff and four procured part – time external advisors who will also be supported by a wider team of external advisors:

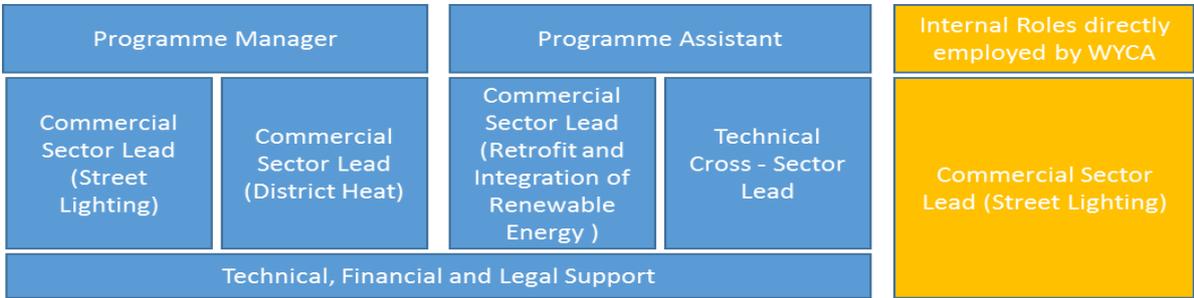


Figure 1. EA Project Delivery Team

¹ Based on [EC's March 2017 exchange rate](#)
² See 1

- 2.8 EA 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 EA'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 EA will be approved by the Managing Director of the Combined Authority. The GEP will also continue to receive regular progress updates on the EA.

EIB Contract Summary

- 2.9 The contract terms include a range of special and general terms and Annexes.
- 2.10 EA funding covers eligible costs of EUR 4,147,056 of which the EIB will contribute a maximum of 85% (EUR 3,513,847; £2.997m³). The remaining 15% will be funded by the Combined Authority, using previously approved Local Growth Funds (EUR 633,209³; £540,000).
- 2.11 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 factor translates into EUR 70.276m (£59.93m) of capital investment.
- 2.12 The pipeline of low carbon projects developed by the Combined Authority with its partners are projected to attract £98m (EUR 115m) of capital investment (1:33).
- 2.13 In respect to payment arrangement, ELENA is paid in instalments – 40% at the outset, 30% after 18months, and 30% on completion of the Accelerator. The second payment will be reduced if less than 70% of the first tranche of funding has been committed at the 18 month milestone.
- 2.14 As the payments are in Euros at the prevailing rates, the Combined Authority will need to manage the fixed rate risks.
- 2.15 There are a range of financial reporting requirements. Including:
- Inception report;
 - Bi-annual progress reports;
 - Interim report (18 month milestone); and
 - Final implementation report

Risks

- 2.16 The EIB requires the Combined Authority, as the final beneficiary, to sign the Contract for Funding. In order to do this the Panel, LEP and Combined

³ Based on the EC's March 2017 exchange rates

Authority need to be aware of the significant risks, mitigations and residual risk. The key risks to the Combined Authority are summarised below and in Appendix 1:

Risk	Residual risk before mitigation	Residual risk after mitigation
Risk of reduced EIB payments at the 18 months (see para 2.13)	A risk the EIB delay payment of the second payment (EUR 1.054m)	Less likelihood but still a risk the EIB delay payment of the second payment (EUR 1.054m)
Risk of clawback from the EIB	A risk of clawback. Maximum is EUR 1.405m (this is the fixed costs that the CA would incur over the duration of the programme). All other costs associated to the EA would not be incurred due to our project appraisal processes and any addition funding drawn down and unused would be repaid to the EIB.	Less likelihood of clawback. Maximum is EUR 1.405m (this is the fixed costs that the CA would incur over the duration of the programme). All other costs associated to the EA 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	Loss of EIB funding	Less likelihood of losing the funding or delays.
Out of date pipeline of projects due to EIB delays in awarding the funding	A risk the EIB delay payment of the second payment (EUR 1.054m) / final clawback	Less likelihood of delays / clawback. The pipeline of projects will be up to date post-review (currently underway).
Project Sponsors fail to use the EA	The residual risk depends on Project Sponsor appetite. This will be gauged as the pipeline of projects is refreshed.	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.		

2.17 There is a range of specific risks that all Project Sponsors that use the Accelerator will be exposed to. These are different to the EIB contractual risks that only the Combined Authority will be exposed to. The key risks for project sponsors are summarised below and in Appendix 2:

Risk	Residual risk before mitigation	Residual risk after mitigation
Responsible for delivering ³ 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	If the sponsor fails to deliver within the 3 years required, claw back is possible from the CA.	Likelihood of claw back reduced. Value is dependent on the support agreed.
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 CA.	Likelihood of claw back reduced. Value of claw back is dependant of the support agreed.

Other

- 2.18 There is a range of mitigating actions identified in Appendix 1 and 2 that aim to reduce the impact and likelihood of the risks and any residual risks to the Combined Authority. Paragraphs 2.19, 2.20 and 2.21 outline some of the ways risks to the Combined Authority are being mitigated.
- 2.19 A contract between the Combined Authority and the EA 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) 1:33 leverage factor target.
- 2.20 There will also be a contract between the Combined Authority and each project sponsor that uses the EA. This is currently being drafted and will outline what support the EA will offer 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.

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- ³ 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)

- 2.21 The Combined Authority is currently reviewing the pipeline of low carbon projects that fed into the ELENA bid. A refreshed pipeline will be completed prior to any approval to consider the signing of the EIB contract.

Establishing the Energy Accelerator

- 2.22 Over the past few months the Combined Authority has approved a range of recommendations to establish the EA quickly, from the point of securing the ELENA funding. Subject the CA's approval, there are now a range of actions the Combined Authority needs to take in order to establish the EA. Table 1 below summarises the major activity and indicative milestones / timescales. **Please note these dates are indicative and subject to Combined Authority Approval.**

Activity	Timescales
1. Seek CA approval to sign the EIB contract and establish a date for the contract to come into force.	5 April 2018
2. Recruitment of 2 Combined Authority staff (1 – Programme Manager and Programme Assistant)	April – June 2018 (subject to CA approval)
3. Procure external Advisors	April – June 2018 (subject to CA approval (1))
4. Commence engagement with Project Sponsors and refresh the pipeline of projects for support	February 2018 – onwards (subject to CA approval (1))
5. Final approvals from the WYCA Authority to establish the EA	End of June 2018 (subject to CA approval (1))
6. Sign EIB Contract	9 April 2018 ⁴ (subject to CA approval)
7. EIB and Combined Authority contract comes into force	July / Aug 2018 ⁵ (subject to CA approval (1))
8. Launch	September 2018 (subject to CA approval (1))

Table 1. Key actions required to establish the EA

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 2.16 and Appendix 1.
- 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. It is unclear from the documentation whether any benefit from Exchange rates could be retained by the Combined Authority. A matter to be followed up with the funder.

⁴ Combined Authority meeting 5/4/2018

⁵ See 5

- 3.3 The payment profile on the 36month project is 40% month 2, 30% month 18 and 30% month 38 (2 months after project end). There will potentially be periods where the Combined Authority will need to cash flow the project. Estimates will be calculated for the Combined Authority approval in April 2018.
- 3.4 There are still some queries to follow up with the funder re 'eligible expenditure' that can be charged to the project. These include redundancy / severance costs and additional pension contributions. These will be clarified for the Combined Authority approval in April 2018.

4 Legal Implications

- 4.1 The Combined Authority's Legal Team have reviewed the EIB contract and are drafting all legal contracts linked to the EA.

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 EA whilst the new EA 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 No external consultations have been undertaken.

7 Recommendations

- 7.1 Subject to consideration, the Panel are also asked to make recommendations to the LEP Panel about the Combined Authority signing the EIB contract.

8 Background Documents

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

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

The Accelerator is part of the GEP's Major Project Update reports at all GEP meetings.

9 Appendices

Appendix 1. Major risks for the Combined Authority

Appendix 2. Major risk for any project sponsor using the EA