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**Report to:** Leeds City Region Enterprise Partnership Board (LEP)

**Date:** 27 March 2018

**Subject:** **Energy accelerator update**

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**Director:** Liz Hunter, Interim Director of Policy and Strategy

**Author(s):** Jacqui Warren

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## **1 Purpose of this report**

1.1 To update the Board on the Energy Accelerator (Accelerator) including:

- The draft Contract for Funding 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.
- Recommendations from the Green Economy Panel (GEP) (para 2.26) to the LEP.

1.2 Subject to consideration, the Board are asked to recommend to the Combined Authority that it signs the EIB contract.

## **2 Information**

2.1 The Accelerator 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 new innovative programme providing 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. 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.
- Street Lighting.

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 ~£60m - £100m 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 City Region that formed the basis of the ELENA bid.
- The West Yorkshire Combined Authority (Combined Authority) approved £640,000 of Local Growth Fund money for the Energy Accelerator on 20 November 2015. This is match funding for the ELENA grant.
- An ELENA application was made to the EIB in July 2016 and revised May 2017 (on the EIBs advice).
- Subject to securing the ELENA funding, remaining approvals needed to establish the EA were approved by the Combined Authority on 5 October 2017.

2.4 The Accelerator 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.

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

- £0.820m Local Growth Fund (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 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:

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

<sup>2</sup> See 1

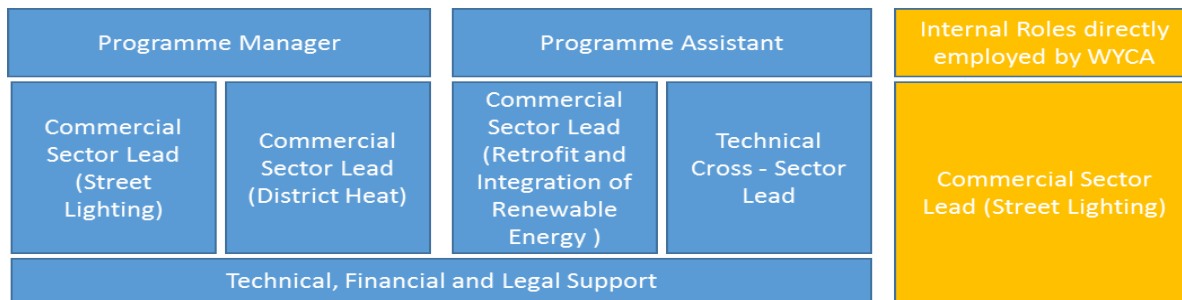


Figure 1. EA Project Delivery Team

2.9 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 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 specific to the EIB ELENA contract.
- 2.11 The EIB will contribute a maximum of 85% (EUR 3,513,847; £2.997m<sup>3</sup>) of the total project costs for the Accelerator. The remaining 15% will be funded by the Combined Authority, using previously approved Local Growth Funds (EUR 633,209<sup>3</sup>; £540,000).
- 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 70.276m (£59.93m) of capital investment.
- 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 £98m (EUR 115m) of capital investment (1:33 leverage factor).
- 2.14 The ELENA grant is paid in instalments – 40% at the outset, 30% after 18 months, 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.

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

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

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 will be asked to consider and make recommendations on signing the contract to the Combined Authority. To support this process the Board need to be aware of the risks, impacts and any residual risks associated to the EIB contract. The key risks, their impact to the Combined Authority and where they could potentially occur within the Accelerator 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 payments 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 clawback from the EIB at the completion of the programme (after the full 3 years) due to underperformance	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 the Project Delivery Team). All other costs associated would not be incurred due to our project appraisal processes and any additional 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	A risk the EIB reduce payment of the second payment (EUR 1.054m) / final clawback

	funding is reduced / programme stalls	
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 key risks, impacts and where they arise for Project Sponsors within the Accelerator are summarised below and in **Appendices 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 (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 this target, partial or full claw back is possible from the Combined Authority.	If the sponsor fails to deliver within the 3 years required, 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.

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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)

### 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 3 year programme. This includes monthly monitoring of the pipeline of projects, the 1:20 leverage factor, the budget and the 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 it was developed in 2016/17, some projects may be out of date and in need of updating. Whilst a number of schemes have developed on their own, some projects are no longer needed. As it stands, the indicative pipeline contains 11 projects which are estimated to deliver an overall leverage factor of 1:34. It will be the Delivery Team's job to use their expertise to further refine this pipeline and develop a wider pipeline of new projects.

2.24 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 all of 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 after mitigation</b>
Risk of reduced 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 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	Less likelihood of delays / clawback. The pipeline of projects has been recently refreshed.
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.
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 <sup>4</sup> the project	Likelihood of claw back reduced. Value is dependent on the support agreed.

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- <sup>4</sup> Investment occurred during the contract period which has been directly supported by the Accelerator; or

(either actual investment in a project or a published procurement for a forthcoming investment), within the 3 year duration of the EIB contract	
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

- 2.25 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.
- 2.26 The Green Economy Panel considered a paper on 20 February 2018. They welcomed the offer of funding from the EIB. They felt that the programme and its risks are 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 pipeline of projects and how robust this was given the lengthily delays incurred. They welcomed the current refresh of the pipeline.
- 2.27 The refresh has now been completed and a healthy pipeline with a combined estimated leverage factor of 1:34 is now estimated. 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. These results have been shared with the Green Economy Panel who now recommend that the Board considers making a recommendation to the Combined Authority on 5 April 2018 to sign the EIB contract. They also stressed the importance of effective management of the programme (para 2.20) and the Advisors support to ensure the programme is delivered and meets the EIB contractual obligations.
- 2.28 Subject to the Board's recommendations and the Combined Authority's approval, there are a range of actions that then need to be taken in order to

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- 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)



establish the Accelerator. The table below summarises the major activity and indicative milestones / timescales. Please note these dates are indicative and subject to Combined Authority Approval on 5 April 2018.

<b>Activity</b>	<b>Timescales</b>
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 from the WYCA Authority to establish the EA	End of June 2018
6. Sign EIB Contract	9 April 2018 <sup>5</sup>
7. EIB and Combined Authority contract comes into force	July / Aug 2018 <sup>6</sup>
8. Launch	September 2018

### **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. The financial risks are set out in the tables above.
- 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 Accelerator.

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<sup>5</sup> Combined Authority meeting 5/4/2018

<sup>6</sup> See 5

## **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 No external consultations have been undertaken.

## **7 Recommendations**

- 7.1 Subject to consideration, the Board are asked to consider and make recommendations to the Combined Authority about signing the EIB contract.

## **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

## **9 Appendices**

Appendix 1. Major risks for the Combined Authority

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