London Energy Efficiency Fund

AMBER GREEN

Sustainable Capital

Overview – August 2011

European Regional Development Fund

Investing in your future

RBS The Royal Bank of Scotland

ARUP

Introduction to the London Energy Efficiency Fund (LEEF)

1. The **London Green Fund** (LGF) has been established by the London Development Agency (LDA) with the assistance of the European Investment Bank (EIB) and the London Waste and Recycling Board (LWARB) under the European Commission's JESSICA initiative, (Joint European Support for Sustainable Investment in City Areas.) The London Green Fund includes £100m of public funds, from the European Development Fund (ERDF), LWARB and the LDA's own resources, and is managed by the EIB.

2. The EIB has procured, on behalf of the London Green Fund, two sub-funds, known as 'Urban Development Funds' or UDFs. The first invests in Waste projects, and was launched earlier in 2011.

3. The second UDF, the **London Energy Efficiency Fund (LEEF)**, focuses on investing in energy efficiency retrofit to public sector buildings, including:

   a) The adaptation and/or refurbishment of existing public and/or voluntary sector buildings (e.g. Local Authorities, universities, hospitals, schools) to make them more energy efficient, sustainable and environmentally friendly; and/or,

   b) Improvements to existing social housing properties to make them more energy efficient (with a cap of c. £11m).

4. The **Amber Green Consortium**, led by Amber Infrastructure with funding from RBS, and Arup as technical advisors have been appointed to operate the EE UDF, and the fund is now live and able to make investments.

5. The London Energy Efficiency Fund is targeting a minimum of £70m, of investment, predominantly through senior or mezzanine loans, by the end of December 2015 (in line with ERDF programme requirements), and has over £100m capital available (£50m from the LGF and up to £50m additional private finance).

Eligible Projects

6. **Performance Targets** - LEEF is a sustainable investor, targeting a socio-economic return as well as a financial return on investment. Projects supported by LEEF should help deliver the fund's overall carbon reduction targets. Each project should therefore aim to deliver:

   a) Energy Savings Ratio of at least 20% compared to conditions prior to investment

   b) Each £1500 LEEF Investment should achieve a reduction of at least one tonne CO_2

7. **Eligible Technologies** - LEEF can support a wide range of **building integral** Energy Conservation Measures (ECMs) in buildings owned or used by the Public Sector, including but not limited to the technologies listed in the table below. Project sponsors with other energy related infrastructure projects are welcome to contact the fund for a discussion on eligibility.

Table 1: Energy Conservation Measures

CATEGORY	ECM TECHNOLOGY
Metering & Controls	- Automatic metering system
	- Building Management System (BMS)/controls upgrade
Lighting	- Lighting control
	- Low energy lighting
Small Power	- Small power management controls
	- Low energy appliances and equipment
HVAC (Heating, Ventilation and Air Conditioning)	- Boiler upgrade
	- Variable speed drives for fans and pumps
	- Air handling unit heat recovery
	- Chiller upgrade
	- Domestic hot water services point of use generation
Miscellaneous	- Vertical transportation control and management
	- High efficiency measures on hydraulic lifts
Fabric	- Infiltration measures (Air-tightness improvements)
	- Replacement glazing
	- Roof insulation upgrade
	- Wall insulation - overcladding
CHP (Combined Heat and Power)	- Combined heat and power (building integral)
Low and zero carbon technologies	- Biomass boilers
	- Photovoltaic cells (PVs)
	- Medium scale wind
	- Biomass CHP
	- Ground Source Heat Pumps (GHP)

8. **Eligible geographies** - LEEF can finance projects anywhere within the 33 London Boroughs.

9. **Eligible borrowers/ project sponsors** - Projects may come from a variety of sources, and may be sponsored by public or private sector bodies (such as ESCOs or developers.) The fund can lend to public or private sector entities, but the projects must involve eligible EE works to public sector buildings. Target borrowers include Local Authorities (including police and fire), NHS Trusts, Universities and Housing Associations, with ESCOs, SPVs and the voluntary sector also able to access funds.

Advantages of LEEF

10. LEEF provides many advantages over other potential sources of finance, including PWLB, Salix and commercial debt. These are summarised below:

- **Price** - LEEF financing may be cheaper than other sources of finance and thus offers excellent value for money for the public and private sectors. Salix funding is interest free, but is only £10m nationally and applications have now closed with no future rounds agreed. LEEF will lend up to £20m per project and has £70m+ to invest just in London.

- **Term**– There are no maximum or minimum terms for LEEF money, or fixed payback periods. To access Salix funding projects must have a payback of 4 years or less, whilst LEEF will look at 10-12 year money or short term development finance. There are also no early repayment fees.

- **Flexibility** – LEEF can offer sculpted repayment profiles which allow the borrower to match payments to revenue savings – as a result projects can be at worst revenue neutral or cash positive for the borrower.

Indicative terms of Investment

The following provides an overview of the indicative approach and target markets for the fund:

a) The fund provides repayable investment finance, and loans must therefore be repaid in full plus an interest element. The fund is unable to provide grant funding and cannot confer state aid.

b) The fund will target investments of between £3-10m, and the fund would encourage project sponsors to consider how best to achieve economies of scale, for example by grouping buildings or eligible parts of broader refurbishment projects together. Smaller projects will be considered on a case by case basis. Draw down can be upfront or on a phased basis.

c) The **LDA RE:FIT programme** provides a pre-procured framework of ESCOs and a template contracting approach linked to the provision of Energy Savings Performance Guarantees. Projects using the RE:FIT programme are one potential source of investments with the fund, and are likely to share a number of synergies with the fund's investment objectives. The Fund will be working closely with the RE:FIT team to ensure a joined up approach. However, there is no obligation for projects to use RE:FIT and it is expected that a range of different procurement routes will be used by project sponsors. Information on the RE:FIT programme can be found at http://www.lda.gov.uk/projects/refit/index.aspx

d) The fund may consider providing up to 100% of senior debt finance for projects if required and if appropriate security is provided.

e) The fund will focus initially on the provision of senior debt. Mezzanine loans and equity are also available depending on the project financing structures and state aid considerations.

f) There is no set payback period required, but the fund will focus on short term development loans and medium term 5-10 year loans in line with the anticipated payback period. Longer investment periods will be considered on a case by case basis.

g) The pricing of the fund's loans will be dependent on the credit rating of the borrowing entity and the amount and level of security provided; the aim is to be able to structure the transaction so that a highly competitive rate can be offered.

h) The fund may be able to offer flexible terms depending on the project (for example the potential to roll up interest during construction, to sculpt interest payments to energy savings, and to allow early repayment), on less penal terms than available from traditional public sector sources such as the Public Works Loan Board (PWLB).

i) Funds are limited and an initial amount must be invested in the first year of operations, so attractive terms will be available for the first projects. Projects will be reviewed on an ongoing rolling basis, with no set deadline for applications or 'funding rounds'.

j) All projects will be subject to due diligence in the same way as a lending bank in order to ensure the fund has the necessary assurance over technical and financial aspects of the project.

k) Projects will be required to comply with monitoring, reporting and publicity requirements linked to the provision of European Regional Development Fund (ERDF) monies.

Indicative Application Process

Potential project sponsors should get in touch with the LEEF team for an informal discussion as part of first steps. LEEF aims to operate a streamlined application process with a quick turnaround on investment decisions and short form template loan documentation. In order to ensure projects meet the funds criteria and to manage risk, LEEF will review information in the following areas. Borrowers seeking investment from the fund will need to address and evidence these areas through a written application process, supported by guidance from the fund.

a) Eligibility & Strategic Fit

- Does the project align with the London Plan and the London Climate Change Mitigation and Energy Strategy?
- Does the project align with the Carbon reduction/ Climate change strategy of the project sponsor and is it part of a co-ordinated energy efficiency programme?
- Does the project provide sufficient outputs in terms of carbon reduction and energy savings? Does the project support sustainable development objectives and achieve broader regeneration benefits)?

b) Financial Viability

- What is the financial structure of the project, and are other sources of finance secured?
- Are financial assumptions on costs, values, income and savings robust and verifiable?
- Is a full financial model available?
- Are the technologies/ measures proposed of appropriate type and quality?

- What is the payback period for the fund's investment?
- What is the credit strength of the borrowing entity and what security can be provided?

c) Deliverability

- Is the project investor ready?
- When will the project be in a position to draw down investment from the fund?
- What are the procurement arrangements and timetable for the delivery of the works?
- Is planning permission required and has it been secured?
- Have the required technical studies been undertaken?
- What is the track record of the project sponsor and borrower in delivering projects on time and budget and on taking on repayable loan finance?
- Does the project have access to appropriate technical and financial expertise to ensure delivery and minimise risk?
- Is there proven leadership and management/ political support for the project?
- What approvals are required before a loan agreement with the fund can be signed?

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