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## Consultation Document

# Green Growth Wales: Investment Support

Date of issue: **20 November 2015**

Responses by: **29 January 2016**

<b>Overview</b>	The purpose of this consultation is to seek views on proposals to accelerate green investment in Wales. We expect it to be of particular interest to those managing assets and finance in the public sector, developers, investors, and also businesses and industries which use significant amounts of energy.
<b>How to respond</b>	Please send responses to the contact details below.
<b>Further information and related documents</b>	<b>Large print, Braille and alternative language versions of this document are available on request.</b>
<b>Contact details</b>	<p>For further information:  Green Growth Wales  Welsh Government  Cathays Park  Cardiff  CF10 3NQ</p> <p><a href="mailto:greengrowth@wales.gsi.gov.uk">greengrowth@wales.gsi.gov.uk</a></p> <p>029 2080 1207</p>
<b>Data protection</b>	<p>How the views and information you give us will be used</p> <p>Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about. It may also be seen by other Welsh Government staff to help them plan future consultations.</p> <p>The Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with</p>

the response. This helps to show that the consultation was carried out properly. If you do not want your name or address published, please tell us this in writing when you send your response. We will then blank them out.

Names or addresses we blank out might still get published later, though we do not think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including the Welsh Government. This includes information which has not been published. However, the law also allows us to withhold information in some circumstances. If anyone asks to see information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published, that is an important fact we would take into account. However, there might sometimes be important reasons why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decided to reveal the information.

## Foreword

I want Wales to be at the forefront of promoting green growth.

Green growth addresses one of the major challenges facing Wales: how we become more prosperous in environmentally sustainable and socially inclusive ways. Green growth can protect and create jobs whilst reducing carbon emissions, improving the lives of the people of Wales.



The ability to attract investment is central to the delivery of green growth. This consultation focuses on how we can accelerate green investment to bring forward the benefits for Wales – how we can spur growth in resource efficiency projects, in renewable energy, and in energy from waste.

The Well-being of Future Generations (Wales) Act requires public bodies to think more long-term, involving people and communities in a more joined-up approach to deliver the Wales we want. Green growth is an essential delivery mechanism for securing this future, bringing greater prosperity and resilience to Wales, as well as ensuring that we are acting in a globally responsible way.

Alongside well being duties, the Environment (Wales) Bill brings forward provisions to reduce our emissions by at least 80% by 2050. Statutory targets and the creation of carbon budgets will help guide delivery and prioritise action for our green growth agenda. A clear path for decarbonisation will also provide certainty and clarity for business and investors.

When I talk to the people of Wales - to public servants, to business leaders, to local communities and to my constituents - I am clear that the commitment is there to deliver the Wales we want. When I see the brilliant things already being done across the country I believe that together we can put Wales at the forefront of green growth.

However there are practical challenges to delivering green investment in Wales. Information gaps, access to expertise, project management skills and access to finance are all issues that limit development. That is why I am looking to develop further proposals to supplement our existing programmes that remove these barriers, and to deliver a step-change in green investment in Wales.

This consultation is about delivering a secure future for Wales, taking advantage of the opportunities a low carbon future presents. It is an opportunity to encourage investment that reduces carbon emissions, creates economic benefits, and covers its own costs over the longer term. It is an opportunity to forge a better, sustainable, more prosperous future for Wales. It is an opportunity that together we must take.

Carl Sargeant AM  
Minister for Natural Resources

# **1. Background**

## **a. What is green growth?**

The green growth approach in Wales aims to foster economic growth, development and social equity while ensuring that our natural assets can continue to provide the resources and environmental services on which our well-being relies. To do this it must stimulate investment and innovation, which will underpin sustained growth, give rise to new economic opportunities, develop our workforce and build skills, and fairly distribute the proceeds of growth through the provision of decent work. Green growth is not simply the responsibility of one or two government departments; instead it is a cross cutting agenda that is the responsibility of everybody.

Central to this approach our Green Growth Wales Investment Support initiative (GGWIS) focuses on practical actions that will help deliver on this wider green growth aspiration and includes a suite of interventions intended to support and significantly accelerate investment to develop resource efficiency, renewables and waste infrastructure. It will help the public sector meet its sustainable development duties, as well as supporting private and third sector interventions and innovations that contribute to our wider objectives.

Our aim with GGWIS is to encourage a broad range of investment in renewables, energy efficiency and waste programmes. It is not targeted at the very largest proposals such as the Wylfa nuclear plant or the large biomass combined heat and power projects. Such projects are well resourced with the necessary skills and are on a scale that can access commercial markets directly. They are also of strategic importance to Wales, and we will continue to provide support to such projects on a case by case basis to enable them to succeed.

## **b. Benefits**

Green investment can contribute to our well being goals, saving carbon, protecting and creating jobs, while saving money and providing financial returns.

We recognise that different technologies vary significantly in benefits and returns with areas of smart infrastructure only now entering the market. Nevertheless, taken as a whole, for every £1m invested, it is estimated that energy efficiency investments provide energy bill savings of almost £3.8m over a 25 year period. The same investment could save 14,000 tonnes of CO<sub>2</sub>, while protecting or creating 10 jobs during the development period.

Similar figures for renewables estimate a return on investment net of capital and operational costs of £777k per £1m spent over the project lifetime, saving

some 7,000 tonnes of CO<sub>2</sub> and protecting or creating 5 jobs during the development period.

Waste projects in Wales since 2008 have focussed on treatment of domestic waste including residual waste treatment (energy from waste) and anaerobic digestion. To date facilities delivered through the programme have created over 400 jobs during construction and around 60 operational jobs.

Full delivery of the programme will result in approximately 3.8m tonnes of CO<sub>2</sub> savings over the lifetime of the contracts. Regarding financial savings, for the 5 anaerobic digestion projects that have reached financial close to date, Welsh Government savings are £5.9m against forecast future costs. For the Welsh public sector as a whole, savings are £18.6m for these projects over 15 years.

For the first residual waste project to close (Prosiect Gwyrdd), Welsh Government savings are £121.5m against forecast future costs. For the Welsh public sector as a whole, savings are £486m for this project over 25 years.

### **c. Policy context**

Under the Government of Wales Act 2006, the Welsh Government has a legal duty to promote sustainable development. The Well-being of Future Generations (Wales) Act places a new sustainable development duty on both Welsh Ministers and many public bodies across Wales to move us onto a more sustainable path. At the landmark UN Sustainable Development Summit in September, 193 member states officially adopted the historic new 2030 agenda, including 17 Sustainable Development Goals (SDGs) imposing significant implications for the future of our societies, economies and environment. Wales is one of the first nations in the world to have endorsed them and we are using our new legislative powers to set ambitious, long-term goals to reflect the Wales we want to see. These include a more prosperous, resilient, healthy, globally responsible and equal Wales, with cohesive communities.

We are aiming to decarbonise the public sector in Wales. The Environment (Wales) Bill complements the climate change provisions in the Well-being of Future Generations (Wales) Act and goes further by establishing a clear statutory basis for interim targets and carbon budgets to ensure that there is a clear pathway for low carbon investment and future delivery. This legal framework, supported by the practical delivery measures we are implementing through Green Growth Wales, will send a clear statement of Wales' commitment to global responsibility and sustainable development.

### **Case study – Welsh Government forest estate**

The public forest estate managed by Natural Resources Wales on behalf of Welsh Ministers covers some 6% (125,000 hectares) of the land area of Wales. It presents a range of opportunities to develop renewables, including wind, biomass, solar, anaerobic digestion, bioethanol, biogas and hydropower schemes.

Over the last five years three wind developments have been taken forward on the public estate totalling £600m of investment and 376 MW of generation, saving some 425,000 tonnes of CO<sub>2</sub> over 25 years. Although these projects are primarily privately led, between 2008 and 2015 option and access lease agreements have yielded £19m for the Welsh public purse. As these projects complete development these leases should yield at least £7m per annum to Welsh Government over the life of these projects.

We have recently consulted on the development of the first Energy Efficiency Strategy for Wales covering all sectors. This recognised that alternative sources of funding and enabling mechanisms for infrastructure improvements are necessary to stimulate the increase in investment that we need to achieve.

A key role for GGWIS is to leverage the investment necessary to support an increase in resource energy efficiency for our public and private sectors. Respondents to the consultation were supportive of this approach.

Our prospectus *Green Growth Wales: Investing in the future*<sup>1</sup> set out the rationale underpinning green investment in Wales, including our extensive and diverse natural resources for renewable generation. It highlighted substantial infrastructure investments in electricity, gas and water distribution networks over the next 8 years, and our £750m Welsh Government led waste infrastructure programme.

In summary, our expectation is that Green Growth Wales will contribute to our well-being goals across Government. It will contribute to future prosperity by encouraging investment, economic activity and job protection/creation. It will reduce carbon emissions and improve resilience by reducing energy demand in Wales and increasing low carbon generation as well as introducing smarter technology, systems and processes to inform developments. It will contribute to better community coherence and health by encouraging community led projects that deliver local benefits and better air quality.

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<sup>1</sup> <http://gov.wales/docs/desh/publications/140623-green-growth-en.pdf>



### **Case study – Western Wood power station**

The £33m Western Wood power station at Port Talbot produces 14MW<sub>e</sub> per annum, saving 45,000 tonnes of CO<sub>2</sub> per annum. It supported 200 jobs during its construction phase and now directly employs 20 people. It is supported by biomass from the public forest estate, as well as from private forestry in Wales, supporting further private and public sector employment, as well as public sector income.

#### **d. The scale of opportunity**

The opportunity provided by green growth investment in Wales is substantial.

An initial analysis of project opportunities across local authorities in Wales, (working through the Welsh Local Government Association) identified some £300m of potential projects, including opportunities such as solar photovoltaic (PV) generation, local heat schemes, energy efficiency in buildings, and replacement of streetlights with low cost, low energy LEDs.

We are now extending this analysis. Welsh Government has funded the Carbon Trust to review energy efficiency opportunities across the health sector, and this has identified some £30m of potential investment. Further opportunities have been identified across Welsh Government's areas of responsibility in transport, schools, further and higher education institutions, Cardiff Airport and on the wider Welsh Government estate.

Waste investment opportunities are also substantial. Our strategy to date has focussed on addressing process and infrastructure for recycling and treatment of domestic waste. This has been highly successful, for example, the first energy from waste plant (Trident Park in Cardiff) has been built, with investment of £223m (see case study below).

Future opportunities include two food waste contracts for local authority partnerships in South West Wales and the Heads of the Valleys, which will go to market in late 2015 and early 2016 respectively. The North Wales residual waste partnership is aiming to award a 25-year contract to its preferred bidder Wheelabrator Technologies Inc. in 2016. The programme is considering opportunities to incentivise development of further infrastructure to treat commercial and industrial waste in line with the provisions of the Environment Bill.

As with the public sector there are substantial opportunities for industry to reduce both costs and carbon through energy efficiency investments, and investments in reducing waste. Substantial private sector investment in renewables has occurred over the last 10 years, including wind, biomass and

### **Case study – waste treatment infrastructure**

Prosiect Gwyrdd is a partnership between Caerphilly, Cardiff, Monmouthshire, Newport and Vale of Glamorgan councils. The combined municipal waste of the five authorities makes up 40% of the total municipal waste of Wales. The Partnership was established to procure a long-term, sustainable contract for the treatment of residual waste which offers value for money to the taxpayer.

In July 2013 Ministers approved £4.2 million of Welsh Government funding each year to the local authorities as a contribution to the costs of diverting over 160,000 tonnes per year of non-recyclable waste from landfill over a 25 year period.

Prosiect Gwyrdd will help reach the Government's zero waste to landfill ambitions by turning the waste into enough energy to power around 50,000 homes each year. The solution will provide an annual net benefit predicted carbon saving of 51,392 tonnes CO<sub>2</sub> equivalent in comparison to continued landfill.

In December 2013 the Partnership awarded a contract to Viridor for services to be provided, from April 2016, by a facility constructed at Trident Park in Cardiff. Construction created up to 360 jobs, with 36 full-time jobs created for its operation, as well as offering apprenticeships and training opportunities. The facility was officially opened by the First Minister in June 2015.

In addition to creating local jobs, the contract will help to save councils money. As the cost of sending waste to landfill continues to rise, it is anticipated that Prosiect Gwyrdd will save the partner authorities approximately £500 million over the next 25 years.

solar PV. Renewable energy capacity in Wales now exceeds 2.2GW, saving in excess of 4 million tonnes of CO<sub>2</sub> each year.

We have also worked with communities to develop renewable energy projects, and have identified projects that could total more than £11 million investment across Wales. As a result of our support, we are seeing shared ownership projects develop between communities, local authorities and businesses.

## **2. Green Growth Wales Investment Support: aim and objectives**

We have set out a possible aim and objectives for GGWIS below. In doing this our intent is to make clear the focus of the initiative.

### **a. Our aim**

To increase green investment in Wales in order to deliver economic, environmental and social benefits, avoiding at least 2,460,000 tonnes of CO<sub>2</sub> emissions over the lifetime of the programme.

### **b. Our objectives**

- Accelerate/increase overall investment in renewable energy, resource efficiency and waste infrastructure in Wales to deliver carbon reductions and increase resource efficiency.
- Leverage capital from other sources to reduce carbon emissions and increase the social, environmental and economic benefits from Welsh Government investment.
- Ensure that capital investment across the programme portfolio is self-sustaining in the longer term, at least covering its original costs.

### **c. Our proposed focus**

In section 1 we have set out the benefits that can be secured through investment in renewables, energy efficiency and waste infrastructure. We have also provided evidence of the potential scale of opportunity, across both public and private sectors, both in terms of past and future projects.

We envisage a 25 year programme with a period (5 years) of initial investment from government. We would seek to complement this initial investment with leveraged funding, where this can be secured and utilised. As loans or projects mature, these initial investments would be recycled to achieve further benefits, and would ultimately repay the original capital.

The quantified scale of CO<sub>2</sub> savings are based on an assumed total investment of £500m (much of which would be from external sources) with benefits accrued over 25 years. The carbon calculation uses published benchmark data and assumes a mix of technologies.

In putting forward these proposals, we recognise that current benchmark data show that carbon savings could be optimised by a narrower investment focus, on energy efficiency alone. However we have taken the view that over a long period these figures are likely to change (for example through reduced costs for renewable generation and smarter infrastructure, technology, processes

and systems entering the market) and that a broader focus has other advantages. In particular a broad focus increases investment opportunity and the scale of available projects, is less exposed to technical and policy decisions (such as recent changes to subsidy regimes), and is likely to provide the best opportunity to attract external investors.

**Question 1**

***Do you agree with the focus on renewables, resource efficiency (including energy efficiency) and waste infrastructure projects?***

### **3. Current initiatives**

In addition to legislative and policy interventions, there are a range of practical programmes and initiatives that are already in place to encourage support for green investment in Wales. These are described below and mainly comprise a range of interventions to support the development of projects at early and developmental stages and current financial support.

#### **a. Project development support**

##### ***Resource Efficient Wales (REW)***

The REW service consists of three key components: a contact centre, a framework of advice and support services and client manager led specialist support. Full information regarding the Resource Efficient Wales service is available at <http://resourceefficient.gov.wales/>.

The contact centre is responsible for the telephone and online presence of REW, and for managing information on demand for the service. It works closely with Business Wales and Farming Connect services, to ensure that consistent advice and support on resource efficiency is provided for all sectors.

The framework contract can be accessed by public bodies in Wales. It includes suppliers with expertise in advice and support across energy efficiency, energy generation, water efficiency and waste reduction, as well as access to research and evaluation services. Client manager support is available to help clients to plan and implement improvements, and to commission specialist services as required.

##### ***Green growth transactional support***

Alongside Resource Efficient Wales, we have put in place further support for the public sector through grant funding of Local Partnerships (LP). This aims to complement the technical work of Resource Efficient Wales by offering commercial, contractual, procurement and contract management expertise to public bodies. These services aim to accelerate and de-risk projects, supporting the development of project business cases, market testing and pursuing opportunities for optimising the commercial terms of the projects, including opportunities to aggregate for scale.

##### ***Re:FIT Wales***

To further supplement this support, we have also submitted a bid to European Local Energy Assistance (ELENA), a joint European Commission and European Investment Bank initiative, to support public sector bodies to access energy performance contracts through the RE:FIT programme. If successful,

this £1.7 million programme of work will stimulate a minimum of twenty times its value in investments, guaranteeing savings in energy costs for public bodies and delivering supply chain opportunities for Welsh contractors.

### ***Renewable energy support service***

We have been supporting communities to invest in renewable energy for five years, and although these volunteer-led projects take time to develop, they deliver benefits directly to local people. The projects under development have an investment value of about £34 million. A new service will be launched early next year, building on previous work, that supports the increase of small scale renewable energy installations in Wales, with a focus on retaining the benefits from the developments in Wales, in order to support the most deprived communities. The service will focus on the following priorities:

- Delivering the pipeline of projects currently in development as a result of the Ynni'r Fro programme;
- Identifying sites for new community based renewable energy projects, and developing delivery partnerships to ensure that the projects are delivered;
- Continuing to develop the evidence base on the need for support, and supporting the Welsh Government in developing a larger programme to be funded under the new European funding programme.

It will principally focus on small and medium enterprises, community organisations and social enterprises, providing advice, support and access to technical services across the spectrum of need to develop such projects.

### ***Smart living development***

Smart Living is focused on facilitating the development of innovative solutions to energy resource issues. A framework has been developed as a guide to the vision, scope and principles for demonstrators that will help shape our future and sets out a range of roles that key stakeholders envisage that Welsh Government should play in supporting their development. Smart Living will contribute to, and help inform, development of Green Growth Wales activities.

## **b. Current financial support**

### ***Public sector organisations***

There are a range of support initiatives currently in place to encourage additional investment across the public sector. In addition to core grant, public bodies can access interest free repayable grants or low interest loans. This access varies according to the powers available to them and accounting rules.

Bodies such as local authorities, higher and further education, have borrowing powers, and in the case of local authorities, access to relatively low cost loans

from the Public works Loan Board (PWLb) as well as prudential borrowing and other private sources. However this is not available to all. Health boards for example are unable to borrow to finance infrastructure or other improvements. Welsh Government is also currently unable to borrow funds, though it will be able to borrow up to £500m from 2018.

Even where public bodies are able to borrow, accounting constraints may limit their ability to access funds from leveraged sources. Where a body, such as Natural Resources Wales, are part of Welsh Governments' consolidated accounts, any borrowings count against spending limits. The effect of this is that any pound borrowed reduces access to central government grant by a pound and hence funding for bodies with accounts consolidated to Welsh Government is limited to direct grant, or repayable grant through invest to save.

These limitations do not apply to bodies such as local authorities (including schools), higher and further education which are outside Welsh Government's consolidated accounts.

Welsh Government has, in practice, made available support in green investment, comprising over £20m in interest free loans to the public sector over recent and the current years. Measures include £9m of interest free loans for energy efficiency through SALIX<sup>2</sup>, up to £11m in 'invest to save'<sup>3</sup> funding this year and £2.9m in capital support to community projects through the Renewable Energy Support Service. All of these funds are recycled to deliver further benefits as grants or loans are repaid – on average every 5 years.

### ***Private sector enterprises***

Practical and funding support for business development across Wales is available from Business Wales. This is business development support which does not specifically target energy efficiency measures, renewables or waste, though businesses can receive tailored assistance from Resource Efficient Wales. The Welsh Government looks to tailor support to businesses subject to available funds through other support mechanisms for example its European Commission notified Environmental Protection Scheme.

Business has also been able to access interest free loans to support energy efficiency activity, through a loan scheme operated on Welsh Government's

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<sup>2</sup> Salix Finance Ltd delivers 100% interest free capital to the public sector to improve their energy efficiency and reduce their carbon emissions.

<sup>3</sup> Total invest to save funding this year is £25m; the £11m refers to energy related allocations.

behalf under previous grant arrangements. This fund continues to operate and currently amounts to some £4m, with funding recycled as loans are repaid.

Business support may also be available through European funds (see below).

### ***European funding***

ERDF funding from 2014-2020 includes over £220m for renewable energy and energy efficiency, and research and innovation for low carbon, energy and environment. This funding covers support for marine renewables, community energy, energy efficiency and the Low Carbon, Energy and Environment Research and Innovation Programme. In addition there are other sources of European funding which are focused on resource and energy developments including Horizon 2020, Interreg and Urban Living.



## 4. Barriers to progress

Notwithstanding the interventions in place, as described in Section 3, research has identified a number of market failures and barriers to investment remain in relation to our aims and objectives set out in Section 2. We have undertaken a range of work to identify these barriers as well as options for removing or mitigating them.

This has been undertaken through commissioned work<sup>45</sup>, externally published work, discussions with both investors and potential recipients, and discussion with others engaged in similar work (Scottish Government, Northern Ireland Executive, London Green Fund, Green Investment Bank and European Investment Bank). The evidence collated through this process and through this consultation will be brought together through the development of a business case.

The evidence collated to date has identified a number of barriers, including but not limited to, grid capacity and access, planning and regulation, finance and project support. Measures are already in hand to help address grid issues through discussions with National Grid, the Distribution Network Operators, and our Smart Living programme, and we have and continue to take forward new legislation around planning, the environment and sustainable development. We also remain in discussion with UK Government, to address planning and regulation issues.

This consultation therefore focuses on two key specific barriers where we believe additional interventions at this stage would improve outcomes:

- Provision of project development skills and capacity support, focussed on early stage development and the development of 'investment ready' proposals and business cases.
- Improving access to capital and revenue finance.

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<sup>4</sup> Wales Resource Efficiency Finance Mapping: A final report by Regeneris Consulting, Old Bell 3 and Quantum Strategy and Technology. 2014

<sup>5</sup> LP review

The work undertaken to date has identified a number of barriers under these two headings, including:

### ***Provision of support***

Green investment projects can be complex and require specialist skills and capabilities. A range of common barriers to investment identified through our discussions and evidence include:

- Capacity and capability (including project management, technical, legal, business case/accounting and commercial skills);
- Co-ordination failures. A lack of co-ordination within and between different parts of the public and non-profit sectors. This is a particular issue where the scale of demand is insufficient to secure economies of scale and to attract finance.
- Organisational constraints – e.g. senior management discouraged from taking investment decisions through the absence of a tangible revenue stream from an investment (where it generates savings rather than new income);
- Competing priorities (particularly where resources and investment priorities compete with statutory duties)
- Environmental externalities – inability to factor wider environmental costs and benefits into investment decisions.

Capacity and capability are particularly problematic in the public sector.

### ***Improving access to capital and revenue finance***

- For large projects, indicatively £20m upward, the market is likely to provide finance for commercially viable projects for which there is a properly developed investment case<sup>6</sup>.
- Access to commercial finance is more difficult for smaller projects as a consequence of overhead costs such as due diligence and reduced investor interest.
- Existing regimes such as SALIX<sup>7</sup> finance delivers 100% interest free capital, but is limited to the public sector only and to those organisations that can borrow (ruling out Health boards in Wales for instance). Direct grants have been provided in the past, but are unlikely to be sustainable in the future given pressures on public finance.

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<sup>6</sup> Green Investment Bank: Strategic Report 2014

<sup>7</sup> <http://salixfinance.co.uk>

- Access to commercial finance is more difficult for early stage projects, particularly in advance of securing planning permission and the necessary consents.
- For renewables, the subsidy regime has been an important factor in making investments viable. However the future uncertainty over funding levels and availability of such subsidies are now impacting on existing and future opportunities.
- In the public sector there are many opportunities that are not being taken forward. Green growth projects have to compete for funds with statutory duties within organisations. There may also be private sector limitations. The Wales Resource Efficiency Finance Mapping<sup>8</sup> study and APSE reports<sup>9</sup> show revenue and capital limit development of some projects.
- UK policy and subsidy regimes have historically supported the development of both energy efficiency and renewable infrastructure. However the frequency and extent of changes to subsidy regimes in recent years have affected developer confidence and are a significant barrier to progress.

#### **Question 2**

***Do you agree or disagree with our assessment of the barriers stated?  
Please provide evidence to support your answer.***

#### **Question 3**

***Are you aware of there other barriers related to provision of support and improving access to finance that we should be aware of?***

#### **Question 4**

***Are there particular project stages – i.e. development, construction or operation - where accessing finance is problematic? Please describe any issues.***

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<sup>8</sup> <sup>8</sup> Wales Resource Efficiency Finance Mapping: A final report by Regeneris Consulting, Old Bell 3 and Quantum Strategy and Technology. 2014

<sup>9</sup> APSE Briefing 14/47. Barriers to Local Authority involvement in municipal energy schemes, December 2014

## 5. Financial interventions

Alongside support for project development, we have been evaluating the need for investment support, and the options for delivering it. This has been developed as described in Section 4.

Section 3 has described existing financial and project development support. These initiatives are important, and are delivering successful results and outcomes. However further green investment in infrastructure remains a significant opportunity for Wales, to meet our aspirations for decarbonisation, to reduce public and private sector costs, and to support economic development and job protection/creation.

Based on our research and evolving evidence base, we believe that further intervention is appropriate. Given the public sector financial pressures, more innovative solutions are needed to increase the overall level of investment available.

Where practical an approach that leverages funding from third parties such as the Green Investment Bank and European Investment Bank is therefore desirable, scaling up the non-financial benefits (for example around carbon and jobs). Our discussions to date have indicated that funding could be secured at highly competitive rates subject to the existence of a robust pipeline of projects at a sufficient scale, and availability of Welsh Government core funding.

### **a. Nature of potential options**

#### ***Non repayable direct grant***

We believe that non repayable grants for “investable” proposals and where organisations are able to utilise investable routes to market, are not sustainable as ongoing non repayable direct grants in the current public sector financial climate. We do not therefore include this as part of our proposals.

#### ***Repayable direct grant (e.g. Invest to Save) and loans***

Public sector organisations in Wales can currently bid for repayable ‘Invest to Save’ funding to enable projects to proceed. In the current year some £11m is available through the Invest to Save scheme for energy related projects. Presently such schemes require a 25% contribution by the receiving body, and are provided at 0% interest.

For Welsh Government, and organisations with accounts consolidated with Welsh Government, direct or repayable grants may be the only option available because of the accounting limitations around borrowing. For this

reason, given that such funding is limited, it may be sensible to prioritise repayable direct grants to such bodies.

Repayable loans may also be made by Welsh Government, subject to public interest considerations and state aid rules. Interest rates can be determined on a case by case basis, dependent on wider benefits and project risk, or standardised as part of a scheme. Such loans could either be made directly, or managed through an 'on balance sheet' vehicle established through a body such as Finance Wales.

Both loans and repayable direct grants are beneficial when compared to non repayable grants, for the obvious reason that as the funding is repaid it can be recycled, allowing investment and benefits to be multiplied over time. As previously identified some £29m of repayable grants or loans are presently deployed and/or available.

Nevertheless taking account of the potential scale of demand, public funding pressures, and the need to continue repayable direct grant funding to organisations which are unable to access loan funding, it is unlikely that this approach alone will meet the scale of opportunity.

### ***Direct investment from commercial markets – project by project approach***

There are a range of investment fund managers specialising in green growth products. It would be possible for Welsh Government to focus its efforts on working with the market to match projects to investment products (both loan and equity) and potentially to work with strategic funders (such as the European Investment Bank) to create a Welsh loan framework product.

Loans from such an approach would probably be at commercial rates, and would probably be subject to existing scale constraints (though we could try to produce larger consolidated offerings to the market by aggregating projects within our pipeline).

Under this scenario, loan funding would mainly focus on private sector projects (public organisations with accounts consolidated with Welsh Government could not participate and local authorities may well secure loan funding at cheaper rates via Public Works Loan Board). Such an approach would be unlikely to create state aid issues, as a consequence of the commercial terms that would be likely to apply.

From a government perspective this is a low cost, low risk approach. However essentially it is 'business as usual', and would be unlikely to create a step change in availability or cost of funding for green growth in Wales.

The public sector could also work with the private sector in joint ventures or equity based projects. Examples of such arrangements are the lease agreements for wind farm developments on the Welsh Government owned public estate.

### ***Creating a leveraged investment vehicle***

This option envisages creating an investment vehicle (a fund, fund of funds or other legal entity) with a Welsh Government contribution leveraging further funds from other investors. The fund(s) would probably take the form of a limited partnership, though other options could be considered, and would work to investment criteria set by Welsh Government, covering matters such as the nature of investments (including technology and geography), acceptable returns, carbon savings and other factors. This approach could offer loans, equity investments or both. Welsh Government could not hold a majority or controlling interest, or intervene in investment decisions, which would be entirely a matter for the fund managers.

This approach is unlikely to provide funding directly to those parts of the public sector whose accounts are consolidated with the Welsh Government; this includes health boards and Natural Resources Wales for example. Its primary focus would therefore be bodies such as local authorities, higher education, further education and schools, as well as the private sector.

For this approach to be viable, Welsh Government would need to commit to a minimum investment (indicatively £25m - though this could be spread over more than 1 year), and we would need to be able to demonstrate a viable project 'pipeline'. Our discussions with strategic investment partners have suggested leverage of at least 4:1 could be secured at fund level, creating a fund of £100m, with further leverage brought in from developers on a project by project basis.

The proposed overall model could be similar to that of the London Green Fund, which is a £120 million fund based on an initial investment made in 2010 from the Greater London Authority, London Waste Regulation Authority and European Regional Development Funding (ERDF) totalling £50m.

If the Welsh Government, as an investor, agreed to take a 'first loss' position on the fund as a whole, it would be likely that we could secure competitively low interest rates from the strategic investors, which when blended with Welsh Government capital could allow the fund to offer below market interest loans or equity rates. A similar approach has been implemented in the London Energy Efficiency Fund (LEEF) where local authorities have utilised LEEF rather than Public Works Loan Board funding to resource energy efficiency investments. In this example, the financial benefits of the low rates remain within the public sector.

Set against this there are some disadvantages:

- There is a risk that individual projects fail and some funds are lost. This would need to be managed through a combination of a portfolio approach (spreading risk), good due diligence, clear and regular monitoring of fund performance, and commitment of further investments in 'bite size chunks'.
- Fund manager costs would have to be paid. Typically these would comprise 1-1.5% of invested capital per annum, though the actual figures would probably be performance related and would be determined by negotiation as part of the tender process.

State aid would not be a problem, in principle, at the fund level, provided the fund managers and general partner were competitively appointed; there is a presumption that there is no state aid in those circumstances. State aid would need to be considered at project level if the fund were offering below market rate products, though many investments would be covered by general exemptions in relation to energy efficiency, renewables and waste projects. Reliance on general block exemptions for some of these types of projects may require different structuring at fund level.

### ***Using an existing investment vehicle***

This would involve identifying and working with an existing investment fund(s) specialising in green growth projects to create Welsh sub fund(s) or a similar entity. This has a number of advantages:

- It could still allow a leveraged approach
- Complexity and cost of implementation would probably be less than creating a new vehicle.

However such an approach would be dependent on finding a vehicle that had similar aims and investment criteria to our own, with fund managers who would be willing to create a Welsh sub-fund. This may be impractical, though officials are continuing to look at options, including Finance Wales.

### **b. State aid**

We have described a number of options around the structure of any investment vehicles. Whatever the structure, whether that be the creation of an investment fund or simply investing at a project level directly, if the support was provided on commercial terms, state aid would not arise.

However we might wish to provide support at preferential rates to encourage investment. In this scenario state aid issues will need to be addressed both at project level and in relation to any vehicle, such as a fund.

In the event that a fund were to be created, the appointment of operators and fund managers would need to be via a carefully structured, competitive procurement process. In these circumstances no state aid would exist in relation to the operators or fund managers. For many of the activities we are considering it is likely that the General Block Exemption Regulation 2014 could apply.<sup>10</sup>

For most projects the General Block Exemption Regulation 2014, would also probably provide sufficient cover (depending on the nature of the project). Additionally investments in public bodies would not normally be considered state aid, provided the body was carrying out its statutory duties and the funding was directed at these activities.

However in practice (and to the extent that there is any uncertainty) we may wish to go through the process of notifying the Commission.

#### **Question 5**

***To what extent would you or your organisation wish to access funding from any of the above sources? If so which and why? Please provide supporting evidence where possible.***

#### **Question 6**

***Which of the following options should be included in any intervention and why? Please provide supporting evidence where possible.***

- Repayable grant – invest to save or similar (public bodies only).
- Welsh Government direct loans.
- Working with / encouraging the commercial market on a project by project basis. [Includes creating a Welsh loan framework product or draw down investment facility that invests in a portfolio of local energy investment vehicles].
- Leveraged funding – creating a new investment vehicle
- Using an existing fund.

#### **Question 7**

***Excluding non-repayable grant, what other funding options should we consider?***

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<sup>10</sup> Commission Regulation [\(EU\) N°651/2014 of 17 June 2014](#) declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty



**Question 8**

***If your organisation is deterred from accessing funding from existing sources, why is that?***

**Question 9**

***What would make your organisation more likely to access funding?  
Please take into account regulatory etc. constraints around the structure of the funding.***