Annex 1 – Action plan template

Produced by each region, the **action plan** is a document providing details on **how** the lessons learnt from the cooperation will be exploited in order to improve the policy instrument tackled within that region. It specifies the nature of the actions to be implemented, their timeframe, the players involved, the costs (if any) and funding sources (if any). If the same policy instrument is addressed by several partners, only one action plan is required.

Part I – General information

Project: Finerpol

Partner organisation: Plymouth City Council

Other partner organisations involved (if relevant):________________________________

Country: UK

NUTS2 region: Devon

Contact person: Alistair Macpherson

Liz Wells

email address: alistair.macpherson@plymouth.gov.uk

liz.wells@plymouth.gov.uk

phone number: +44 1752 304255

Part II – Policy context

The Action Plan aims to impact: * Investment for Growth and Jobs programme

Name of the policy instrument addressed: **Heart of South West LEP ESIF Strategy**

Main features

Low carbon investment to benefit our low carbon businesses – activities to include:

1. Demand side support:

- Support for the deployment of low carbon energy technologies and infrastructure particularly in technologies where the Heart of the Southwest has a potential competitive advantage/leadership opportunity (e.g. decentralised heat and energy efficiency)
- Market stimulation activities – Adding value and complementing national schemes such as the Green Deal to promote private investment in renewable energy and energy efficiency.

2. Supply Side support

- support to SMEs to diversify technologies
- support low carbon sector SMEs to enhance capacity.

The Operational Plan (OP) targets support for supply chain growth.

Why it should be improved

PCC research indicates largescale programmes are required for retrofitting EE in buildings. Such programmes offer significant demand side investment

The instrument needs to be improved for:

1. The OP does not sufficiently enable a steady flow of investment at sufficient scale to deliver the growth potential of the low carbon economy in the city. Demand side growth cannot be delivered through intermittent grant and investment programmes, but need specific package of FIs for energy efficiency and renewable energy, comprising an appropriate mix of EU, UK, and private funds
2. The OP focuses on supply side support, whereas it is equally important to develop demand in tandem so that there are commercial opportunities to enable businesses to grow

How we aim to impact the policy

We aim to establish a financial instrument (a low carbon investment fund) to demonstrate the benefits of improved access to finance for building renovations, such that provision is made for use of ERDF or similar in future strategies.

We aim to gain the support of the managing and operational authorities for this approach, during this programme period.

Part III – Details of the actions envisaged

Our strategy

The main deficiency in the ESIF Strategy is that it does little to generate demand in the low carbon economy. Its focus instead is on directly supporting SMEs working in the low carbon sector.

ESIF funds would be better employed if refocussed on strategic initiatives aiming to stimulate demand and build the market for low carbon services (including energy efficiency retrofitting). Building retrofits is the most accessible sector for SMEs, and has the greatest scope for impact.

We have identified that the principle barriers in this market are:

Knowledge – people and organisations know little about what energy efficiency measures are available and what benefits they can deliver

Expertise – organisations rarely have the expertise to develop projects to the specification necessary to attract finance (for which risk management becomes important). Consequently, the scope of investments is limited by available resources within an organisation and competing priorities.

Finance – Because projects are not being developed with investor needs in mind, and because scale is limited by lack of finance, there is not an active investment ecosystem.

Our strategy to tackle these deficiencies, and so improve the policy instrument in question (ESIF Strategy) is:

1. To create a consortium with a project pipeline of sufficient scale (approx. €50m investment value) that can be fed with sufficient projects to maintain a large pipeline
2. To establish a project development unit with the expertise and resources to develop projects in this pipeline to investment-ready status
3. To establish a fund to provide finance to projects that meet the investment criteria for viability and carbon emission reduction
4. Create a cost-recovery mechanism so that the project development function is sustainable
5. To communicate our results and to work with government to influence the replacement for the current ESIF strategy.

This suggests that Types of Action for future structural fund deployment could be:

- Supporting new regions joining the consortium to create and deliver a project pipeline, or individual 'keystone' projects (large scale, high impact on sector).
- Supporting projects that create and build on economies of scale as the market expands, to bring down costs and increase sector capacity.
- Supporting SMEs to meet increasing demand through collaborative approaches such as 'Ready For Retrofit', which provides a platform for accredited suppliers.

ACTION 1. Create consortium of public actors

1. **The background** (please describe the lessons learnt from the project that constitute the basis for the development of the present Action Plan)

From the Extremadura Interregional event and from the UK Interregional Event we learned that we needed to achieve a minimum scale of investment opportunity to attract institutional investment. We recognised that such a scale was probably not present in Plymouth at one time and that we needed to work with other areas to aggregate project portfolios.

Relevant experiences	*A presentation on the Adalucia FI demonstrated the need for a minimum investment scale and for incorporating de-risking mechanisms into the FI*
	The experience of AGENEX is creating a pipeline of projects for investment showed how smaller projects could be aggregated into a portfolio of sufficient scale to attract investment, and that working with other public authorities was a good starting point.

PCC created a stakeholder working group comprising representatives of other public partners and discussed how to proceed. It was recognised that we needed to focus on public authorities that were actively developing large projects and so had the motivation to be really actively involved. In aggregate the project portfolio needed to be at least €30m to be of interest to investors.

2. **Action** (please list and describe the actions to be implemented)

A consortium should be created by the signing of an Inter Authority Agreement, which sets out the governance arrangements for the management of a joint programme of project identification and development. This IAA should both facilitate the securing and management of technical assistance funding, including management of risk between the authorities involved, and be adaptable to accommodate the governance of a jointly owned Fund.

3. **Players involved** (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

The consortium will comprise Plymouth City Council, Bristol City Council, Devon County Council. Others are expected to join at a later date. Each will act as facilitator in their localities, identifying and bringing forward energy efficiency projects to be developed by a Project Development Unit (PDU). These projects will include both corporate projects of those organisations, and projects of other public and private organisations within their respective jurisdictions. These roles are set out in the agreement. Each consortium member will participate in a Programme Management Board, this being the main governance structure, to oversee implementation of the joint Programme.

4. **Timeframe**

The Inter Authority Agreement will be in place by the end of August 2018.

	2018			2019				2020
	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Action 1								

5. **Costs** (if relevant)

Estimate three person months.

6. **Funding sources** (if relevant):

N/A

ACTION 2. Establish Project Development Unit for Energy Efficiency projects

7. **The background** (please describe the lessons learnt from the project that constitute the basis for the development of the present Action Plan)

From the UK Interregional Event and looking to the experience of Agenex, we recognised that a FI needs projects to which to deploy its money. We were advised by experts within and external to the Finerpol Partnership that there is a significant gap between the quality of projects seeking funding and the quality expected by investors. For this reason we were advised to establish a Project Development Unit. This PDU would provide access to the necessary expertise, systems and procedures needed in order to develop projects to investment ready status. We will consider how to incentivise organisations to bring projects forward, and how to engage with private home owners which has many challenges.

Relevant experiences	*Speakers at the UK Interregional event, especially from the London Energy Efficiency Fund and contributions from the floor from Finerpol Czech stakeholders emphasised the need for a project development unit to bring projects up to investable standard.*
	Speaking at later Interregional Events with Agenex and with the Climate Protection and Energy Agency of Baden Württemberg, we were advised that a specialist PDU funded through ELENA was a good option to provide technical assistance for project development

8. **Action** (please list and describe the actions to be implemented)

Secure funding for the operation of the PDU and its project development activities. Whilst our aim is to make this self-financing in the medium term, in the short term grant funds will be necessary. We have identified ELENA Technical Assistance grant as a suitable source, and this has now been secured.

Identify a host organisation for this PDU from amongst the consortium and recruit the necessary staff to ensure its intended function can be delivered effectively. Establish systems and procedures for the operation of the group and identify suitable projects to develop.

9. **Players involved** (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

All consortium members will be involved in this activity.

10. Timeframe

The PDU will be established in quarters 3 & 4 in 2018.

	2018			2019				2020
	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Action 2								

11. **Costs** (if relevant)

Approx. €2,000,000 over a three year operational period, including staff costs and external experts.

12. **Funding sources** (if relevant):

European Investment Bank, European Local Energy Assistance (ELENA). Consortium members.

ACTION 3. Establish Low Carbon Investment Fund

13. **The background** (please describe the lessons learnt from the project that constitute the basis for the development of the present Action Plan)

The aim of Finerpol in the UK is to establish a financial instrument to improve the renovation rate of buildings for energy efficiency. The examples of FI which we discovered through the Finerpol Project (both through Interregional Events, and through collation of best practices) provided plenty of inspiration. The London Energy Efficiency Fund, being a UK example was particularly closely aligned to our needs. However, there were two factors that we needed to find solutions to:

1. London is a large and dynamic city with no shortage of projects, whereas our consortium represents smaller cities and much less densely populate areas. We felt that establishing a fund on its own was not enough and we needed related activities to build and strengthen the pipeline of projects so that funds could be deployed and carbon emission reductions realised.
2. ERDF had not been foreseen in the form of FIs in our region, because of the small strategic units for deployment of ESIF funds in England. Thus, access to ERDF has always been uncertain and we have had to consider how to mitigate the lack of it in a fund, whilst at the same time trying to negotiate access to it. Examples of commercial investment funds (without ERDF) experienced in the Prague City & Trento interregional events, and others amongst the best practices, have been inspirational.

Relevant experiences	*At the Interegional Event in Trento we heard of good approaches to aggregating projects to meet minimum investment values (SUSI Fund and City of Turin FI)*
	At the Prague Interregional event and Gdansk study tour we learned about how funds can be structured to attract private finance (Czech National Bank; European Investment Bank)

14. **Action** (please list and describe the actions to be implemented)

The consortium aims to secure approval from its respective leaders to establish, in partnership, a Low Carbon Investment Fund for the South West area of England. With this approval an independent Fund Manager will be procured, and governance arrangements put in place (extended from Action 1) which will set and monitor the Fund's objectives. The Fund Manager will be tasked with establishing a special purpose vehicle as the entity of the Fund, and for securing the necessary investment. A Fund size of €100m+ is envisaged based on an identified project pipeline of €170m in value. It is intended to link the Fund with the PDU so that they work in a coordinated fashion to identify and develop projects, finance them, and so meet carbon emission reduction targets.

The Strategy proposed in the Ex Ante assessment is to pump-prime the Fund with public sector borrowing (from UK's Public Works Loan Board, in the absence of access to EIB because of Brexit). A Finance Guarantee will also be sought from UK Government, as we think this will help to overcome the reticence of public authorities and the private sector to invest into this type of fund. They are used to making investment decisions and managing investment assets, but the energy efficiency market is not known to them and because of their lack of knowledge the risks *look* high compared to the rewards. We think a finance guarantee will overcome their lack of confidence, until such time as we have real data from financed and operational projects.

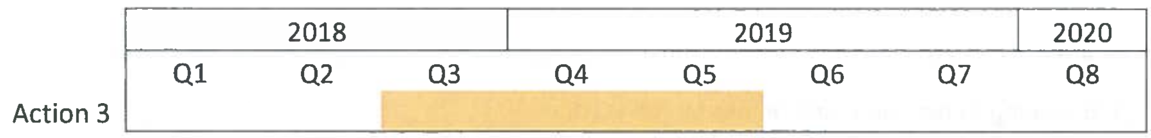
Relevant experiences	*The Study Visit to Estonia was very interesting in respect of the KredEx Fund and how incentives were structured to encourage project development, and to overcome financial barriers to investment on the part of private homeowners.*
	During the study visit to Gdansk, we were introduced to the EIB approach to developing the market in energy efficiency renovations and investments in a sequential fashion – working with banks to help them to understand the market and to gain the confidence to invest more heavily over two or three Fund cycles.

15. **Players involved** (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

The aforementioned consortium members, new members that may join from time to time, a Fund Manager, investors, UK Government.

16. **Timeframe**

It is thought realistic to appoint a fund manager by March 2019.



17. **Costs** (if relevant)

It is not clear what the costs of procurement (of a Fund Manager) will be at this point in time but it is expected that they will be absorbed by the consortium members.

Estimate 10 person months

18. **Funding sources** (if relevant):

N/A

ACTION 4. Develop relationship between ESIF strategies and the PDU/Fund

19. **The background** (please describe the lessons learnt from the project that constitute the basis for the development of the present Action Plan)

The current ESIF strategy does not foresee financial instruments. This presents an immediate barrier to the use of ERDF as a revolving investment in the Fund in this programme period. Beyond 2020 we want to use Finerpol experiences and learning to influence the next round of structural funding priorities so that the value of FIs for energy efficiency retrofitting is recognised and investment is enabled.

ERDF had not been foreseen in the form of FIs in our region, because of the small strategic units for deployment of ESIF funds in England. Thus, access to ERDF has always been uncertain and we have had to consider how to mitigate the lack of it in a fund, whilst at the same time trying to negotiate access to it. Examples of commercial investment funds (without ERDF) experienced in the Prague City & Trento interregional events, and others amongst the best practices, have been inspirational.

As the UK ERDF programmes near their end (and as Brexit approaches) it is hoped that there will be sufficient unallocated structural funds in the region that an application can be made to secure it to support the objectives of the Fund. This will need the backing of the various Local Economic Partnerships in the region and so will require promotion and negotiation.

In parallel, the UK Dept for Business, Energy and Industrial Strategy (BEIS) has been following the Finerpol approach. We aim to open a dialogue regarding the delivery of this action plan and the capitalisation of lessons learned.

20. **Action** (please list and describe the actions to be implemented)

The consortium will liaise with Department for Housing, Communities and Local Government (the Operating Authority for England) (now the Ministry for Housing, Communities and Local Government) to monitor the allocation of ERDF during 2018 to determine whether an allocation to the Fund is possible and desirable. If so an application will be made and considered. If secured, appropriate procedures will be put in place to manage these funds in accordance with the respective Regulations.

The consortium will also liaise with BEIS to consider how the learning from Finerpol can be capitalised.

21. **Players involved** (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

All consortium members, relevant Local Economic Partnerships, Ministry for Housing, Communities and Local Government, Dept for Business, Energy and Industrial Strategy.

22. Timeframe

Mid to late 2018, aiming to receive funds before March 2019

	2018			2019				2020
	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Action 4								

23. **Costs** (if relevant)

The staff costs involved will be absorbed by the consortium members. Estimate 7 person months

24. **Funding sources** (if relevant):

N/A

ACTION 5. Monitor and Review financial model and prepare business plan for ongoing funding of PDU

1. The background (please describe the lessons learnt from the project that constitute the basis for the development of the present Action Plan)

Whilst Technical Assistance grant will help to establish the PDU and to demonstrate its value, the PDU needs to be self-financing in the long term so as to ensure a steady supply of projects. This is fundamental to our long-term aims to stimulate demand in this sector. Our approach will be to capture some of the value added by the PDU to financed projects and to recycle this to the PDU. There are various options which will be explored and tested.

2. Action (please list and describe the actions to be implemented)

Establish monitoring systems, including indicators (capital deployed; carbon emissions reduced; energy costs saved; jobs created). For each project, record project development cost and finance transaction costs, and projected energy cost savings and investor returns. An analysis of this data for projects will identify what potential there is for PDU cost recovery.

Develop a business plan and present to consortium members. We will aim to show that the PDU can be self-financing over time, but will need to secure commitment from consortium members to underwrite its day to day operations and to host its staff.

3. Players involved (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

Consortium members.

4. Timeframe

Final quarter of Phase 2 (Jan-March 2020)

	2018			2019				2020
	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Action 5							■	■

5. Costs (if relevant)

Estimate 9 person months. Consultancy support.

6. Funding sources (if relevant):

N/A

Date:27 September 2018

Signature:

Name and position:

Philip Heseltine

Head of Transport, Infrastructure and Investment

Plymouth City Council

Stamp of the organisation (if available):