



Green Finance Seminar

Presented May and June 2011 at
KPMG offices in Liverpool,
Manchester and Preston

Purpose

- To share experience and understand good practice in relation to Green Financing
- To offer the opportunity for you to explore the barriers you are facing with the projects you are considering
- To provide a forum for answering any specific technical questions you have
- To encourage you to develop an action plan to progress your project.

Agenda

- Context - why is this important for authorities and what is happening nationally
- Experience from five pilots KPMG have been working with
- Explore what other projects participants are involved with

Break

- Review of the financing options available to authorities
- What do private financiers look for when making investment decisions
- What barriers are you facing?
- How might they be mitigated?
- Are there any technical questions we can help to answer?
- What are you going to do next?

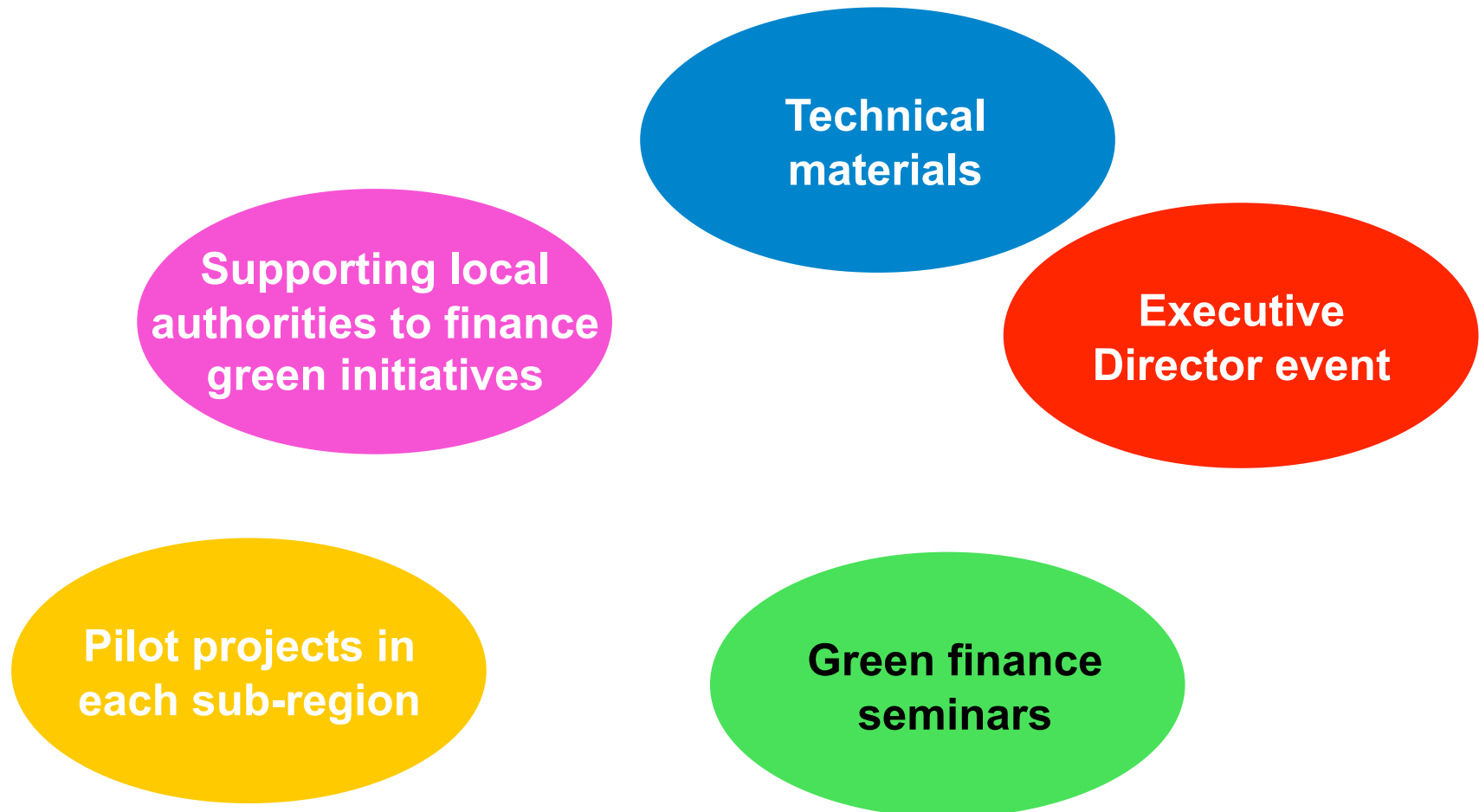
Climate Change Skills Fund

- Funded by North West Improvement and Efficiency Programme (NWIEP)
- Extension of existing CLASP programme – runs until June 2011
- Available to all North West local authorities
- Range of regional and sub-regional activities
- Green Finance Support being delivered by KPMG
- Full programme can be found at www.clasp-nw.info

Projects Commissioned

Workstream	Project	Delivery Bodies
Technical Support	Technical Support & Training	Envirolink NW, Quantum & AECOM
	Green Finance	KPMG
Policy Support	Shared Learning Group	POS
	Adaptation Seminar	TCPA
Community Engagement	Community Engagement and Renewable Energy Programme	NNW & EST
Sub-Regional Innovation	Various	5 Sub-Regions
Low Carbon Business Processes	Low Carbon Procurement Research	NWIEP Efficiency Commission
Leadership and Member Development	Leadership Event	PAS

Project overview





The opportunity and context

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- **Climate change and energy prices**
- **Government response**
- **Local authority context**
- **The opportunity elaborated**

Climate change

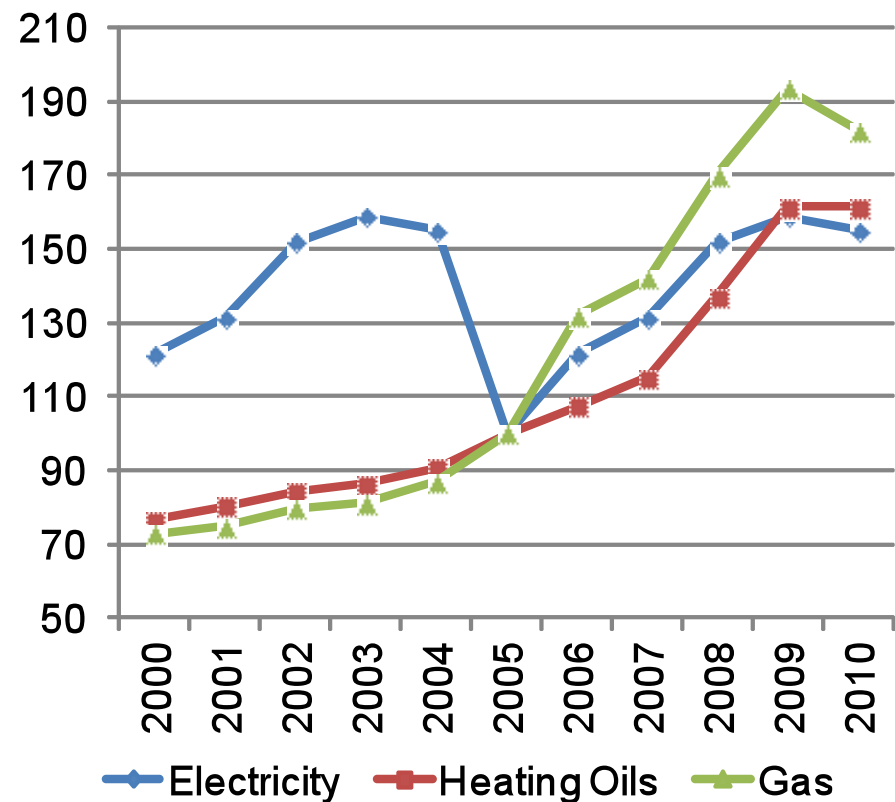
- Global average temperature continues to rise – a business risk
- Climate Change Act 2008 cut emissions by at least 34% by 2020 and 80% by 2050
- Setting and meeting five-yearly carbon budgets for the UK during that period



Energy prices

- By 2030, world primary energy demand 40% higher than in 2007
- Fossil fuels remain the dominant source - for 77% of the demand increase. For oil: equivalent of adding 4 Saudi Arabias to production
- Energy supply and security – eg scramble for oil in Arctic, Africa

Retail Price Index – Fuel Components



Source: DECC Quarterly Energy Prices, March 2011, Table 2.1.1

Responses to the trend in energy

- In 2009, investments in renewables soared across the world:

(\$bn)	2008	2009
Asia-Pacific	59.5	161
North America	181	215
Europe	155.5	254



Government policy response

The future of UK energy

Charles Hendry, Energy Minister

29 September 2010

'Our wind, biomass, wave and tidal resources makes us a natural world leader for renewable energy but Britain has not realised its own potential.'

'We need a higher level of ambition because there is a reservoir of opportunity that we are not taking advantage of.'

'In fact we are the third worst performer in the EU - but we have the resources - over 40 per cent of the EU's wind is in the UK, and we have the largest tidal resources in Europe.'

Government policy response

Massive range of policies!

The recent Carbon Plan is a good summary. Policies aimed at:

- Major energy generators (eg Renewable Obligation)
- Suppliers (eg Electricity Market Reform, CERT)
- And then the rest of us

Policy	Outline
FITs and RHIs	The Feed-In Tariff (FIT) was introduced in April 2010 to provide better support for small-scale renewable electricity. The Renewable Heat Incentive (RHI) will provide long term support for renewable heat technologies from next year.
EUETS/ CRC	The EU ETS is an EU wide cap and trade scheme covering electricity generation and the main energy-intensive industries -covers 42% of emissions in the UK. The CRC, now just getting going, provides a financial incentive to reduce energy use by putting a price on carbon emissions.
Green Deal	A scheme being developed to enable private firms to offer consumers energy efficiency improvements to their homes, community spaces and businesses at no upfront cost, and recoup payments through a charge in instalments on the energy bill.

The opportunity

What all this means for authorities is...

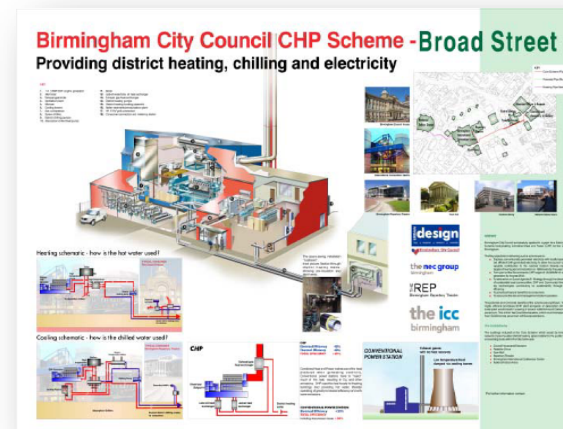
- An exciting opportunity to generate a new revenue stream, create local jobs and meet key objectives.
- The private sector already generates sufficient returns to make these projects viable
- If structured correctly then the public sector can deliver these projects on their own or with the support of the private sector
- Only positive game in town!



Bristol CC



Stroud DC



Birmingham CC

Pilots – Cheshire

- Cross-Cheshire partnership including LG, NHS and education
- Solar panel installation on public sector estate
- Challenge is to match the lifetime of project to the asset
- Key lessons:
 - Work together between officers, executive and members
 - Clear asset management approach over extended period
 - Finance is accessible depending on structure



Pilots – Cumbria



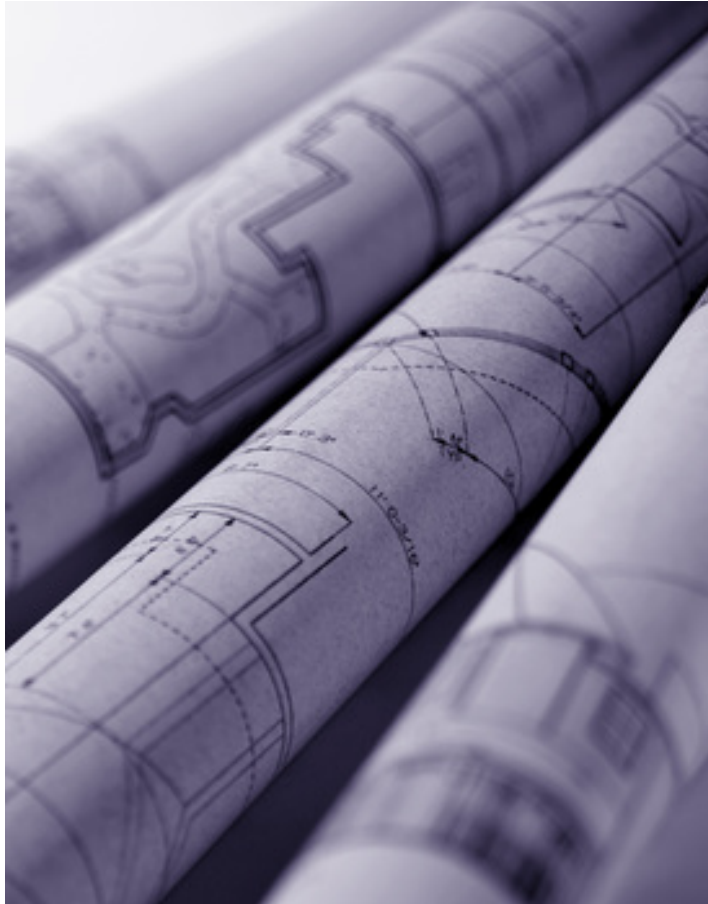
- Bid by LDNPA for Local Sustainable Transport Fund monies for South Lakes
- Partners include LG, transport and amenity providers
- Focusing on:
 - Electric bike scheme
 - Bus hubs
- Key lesson:
 - Business case is critical to accessing available finance/funding

Pilots – Greater Manchester

- AGMA Low Carbon Investment Unit
- Concept is to generate self sustaining revenues from investment in low carbon projects
- Key lesson:
 - Holistic approach to strategy creates a potential local authority business



Pilots – Lancashire



- Developing low carbon solutions within County Council's own estate
- Potential use of solar PV to generate resources to invest in other initiatives
- Key lesson:
 - Consider different investment models at different stages of the investment process

Pilots – Lancaster



- Heat leisure centre using waste hot water from a local power plant
- Involves Council, owner of landfill site and the electricity generating sub-contractor
- Key lesson:
 - Understand the ‘make or break’ issues upfront and get early agreement

Pilots – Merseyside

- Knowsley MBC looking at district heating scheme for business park
- Challenges:
 - Long-term contracts to provide security versus energy price volatility
 - Risks will limit potential sources of finance
 - Buy-in from large number of businesses operating on park
- Key lessons:
 - Feasibility and options analysis appraisal are key to project development
 - Senior officer support is critical





Team Introductions

Team introductions – 30 minutes

- Introduce yourselves to everyone on your table
- Briefly discuss what each authority is doing on the broad green agenda
- Discuss in more detail those projects which are of an ‘invest to save’ nature.
- Record the names and objectives of each ITS project ready to feed back BRIEFLY! to everyone else.



Corporate Finance



Finance options

- Spectrum of options available

Public sources

Grant

Internal resources

Prudential borrowing

Private sources

Corporate debt

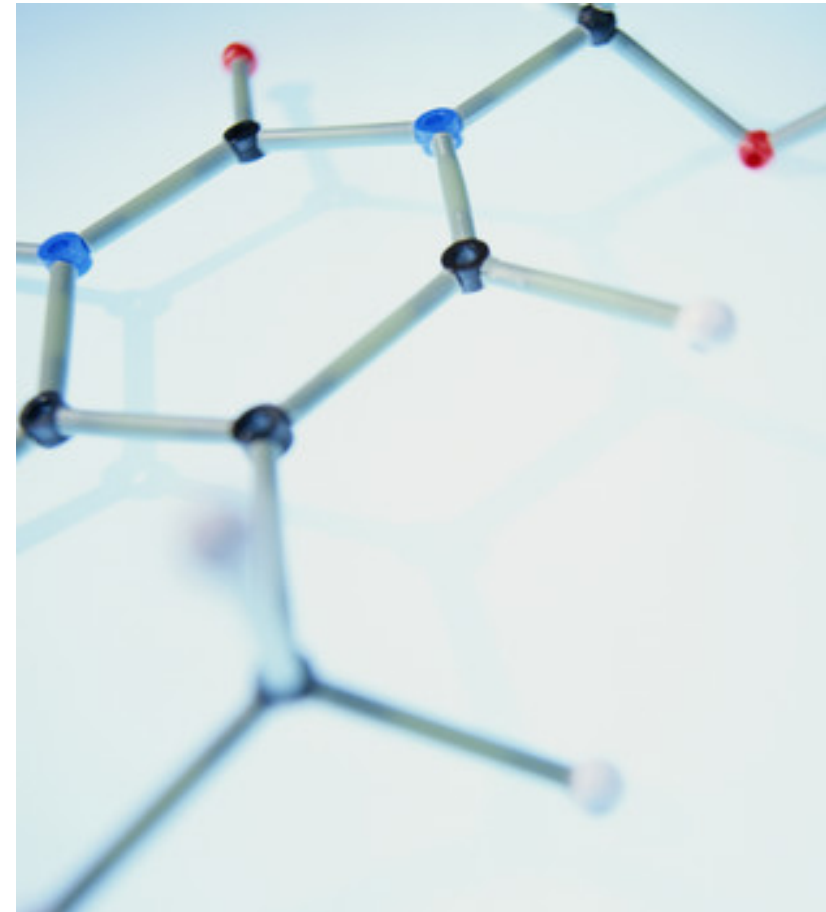
Asset finance

Project finance

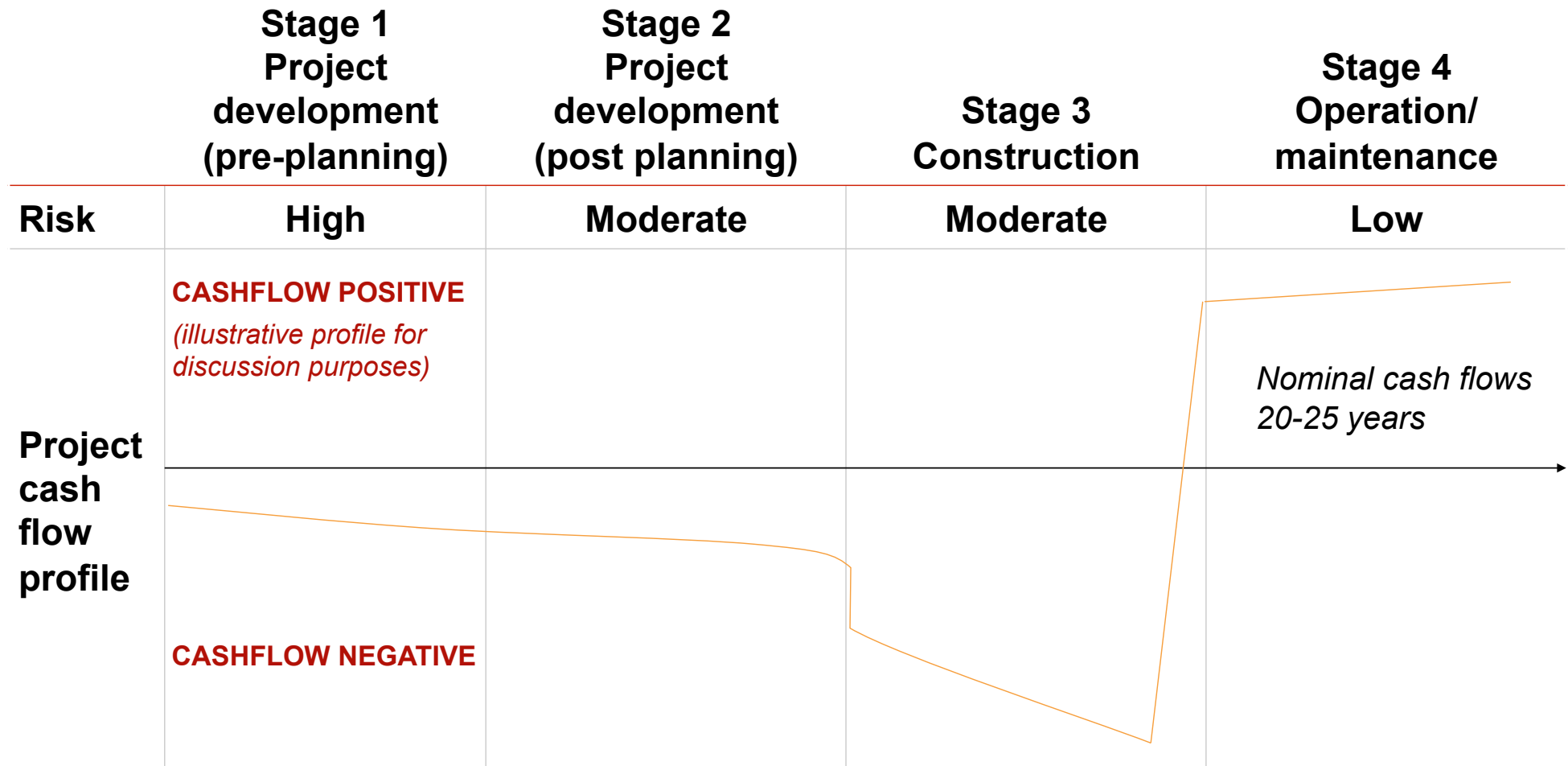
- Drivers of the appropriate form of financing:
 - Project structure
 - Type of project / technology
 - Risk appetite
- Project specific - Special Purpose Vehicle required?

Project Structure

- Project structure dictates the type of finance available
- Sets out investment requirements and form of investment
- Risk exposure for authority is determined through the contractual structure
- Residual risk will however be retained by the authority



Generic Project Lifecycle

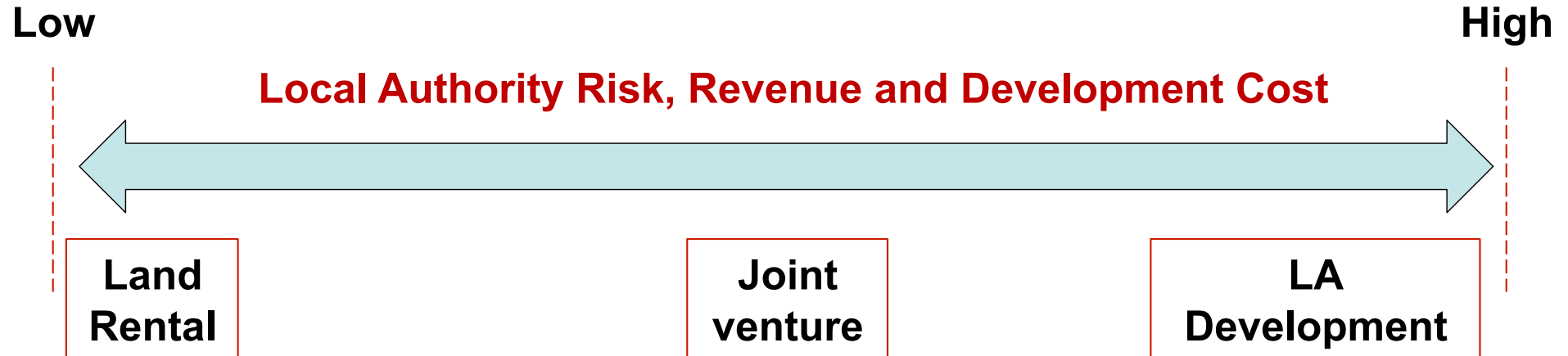


Project Risks

- All projects involve risk
- Most risks can be managed and mitigated using the right experience
- Robust risk assessment and management processes are required
- Risk transfer reduces potential revenue
- Funders will scrutinise the project risk



Types of structures



- There are a number of structures that can be adopted
- Generally, authority risk, revenue and development all increase proportionally
- Varying from land rental to self develop, construct and operate
- Structure can be used to manage authority risk

Project development

- Senior member support is critical to success of development
- Definition of authority objectives and drivers is key
- Business case required for investment
- Requires analysis of all aspects of the project
- Guidance gives best practice but no renewable energy specific guidance
- Development will drive most appropriate structure and type of finance
- The devil is in the detail.....



Project selection and barriers

Project selection – 10 minutes

- Review the ITS projects you identified before the coffee break
- Choose one of these that you wish to discuss in more details to help:
 - clarify why this project is high priority
 - identify financial and non-financial barriers
 - work out how the barriers can be overcome or mitigated.

Barriers – 15 minutes

- Identify the main barriers facing your selected project
 - financial
 - non-financial
- Record these on your flip chart



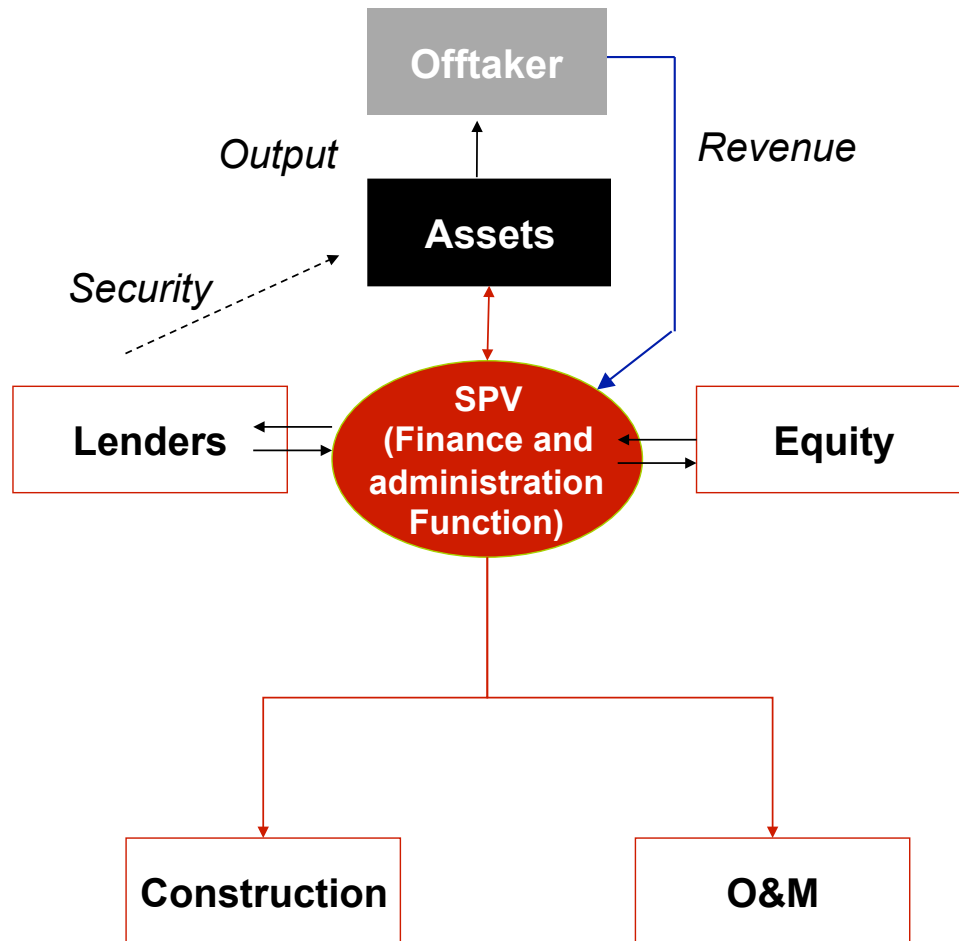
Finance perspective

Bankers

- Don't like to take any risk...
- Type of finance driven by the project structure
- Security is required
- Amount of security depends on project risk
- Bankers do not like new technology that they don't understand



Contracts required



Potential contracts

1. Revenue and supply contracts
2. Construction contract
3. Operations contracts
4. Loan agreement

But that is not all the lenders are interested in...

1. Experience
2. Likelihood of contractors failing
3. Interface agreements
4. And more

Key risks

- Revenue – how likely is the revenue?
- Fuel – How secure is the source?
- Timetable – will project be delivered on time?
- Technology – is it proven?
- Construction and operation – do you have experience?
- Before providing finance lenders will undertake due diligence on all aspects of the project



Revenue risk

- Various support mechanisms:
 - Renewable Obligation
 - Feed In Tariff
 - Renewable heat incentive
 - Green Deal
- Electricity prices vary
- Will central government change policy?
- Projects operate for 20 years
 - need to consider the long term risks



Its all about structure...

- Lender considerations
 - Risk assigned to appropriate party
 - Appropriate experience required
 - Appropriate security – guarantees may be required
- Local Authority Considerations:
 - Meets objectives and drivers
 - Councillor/senior member buy in
 - Projects developed with funding in mind
- Building blocks need to be developed for a project





Solutions and next steps

Solutions – 15 minutes

- Review the barriers for your selected project
- In the light of what you've heard today, what are some of the ways those barriers might be overcome
- Record these on the flip chart - legibly please!
- At the completion of the exercise - have a look at the 'solutions' that other groups have come up with.

Next steps – 20 minutes

- Either
 - get into a team with colleagues from your Council
 - pair up with another ‘single’
- Choose the ITS project that is highest priority for your organisation or the most problematic
- Identify the key steps you need to take to move it forwards
- Identify any technical questions you need resolving
- Record your actions and questions
- What is the one thing you’ll commit to doing in the next month

Resources available

Technical materials

Supporting local authorities to finance green initiatives

Executive Director event

Pilot projects in each sub-region

Green finance seminars

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