

The Mayor's Financing Facility and London Councils' work on the Cities Climate Investment Commission (3Ci, formerly UK CCIC)

A Joint Position Statement – August 2022

Background

GLA and London Councils share the goal of enabling and accelerating the flow of finance into climate-related projects to support London in reaching net zero by 2030. Two important workstreams are being undertaken in pursuit of this.

The Mayor's Green Finance London Programme, which includes the Financing Facility, aims to support single asset class investments initially and the Cities Climate Investment Commission (3Ci, formerly UKCCIC) aims to support place-based single and multi-asset class investments. Both will have a crucial and complementary role to play in getting London to net zero.

Both have identified similar solutions to encourage the flow of private sector finance:

1. Creating a pipeline of bankable projects and/or portfolios;
2. Establish financing mechanisms for attracting private sector investment into those projects and/or portfolios;
3. Lobbying Government to create a favourable market framework for private sector investment.

The Mayor of London and London Councils have committed to continue to engage and work together on their respective projects to ensure that they are complimentary. Together we should provide London with the best opportunity for attracting green finance and delivering the climate related projects that will enable London to get to net zero by 2030.

The Two Workstreams Explained

The Green Finance London Programme

This long-term programme aims to mobilise the substantial levels of private sector investment that is needed to finance London's climate related projects. The programme's primary workstream is the Mayor's Financing Facility, the first phase of which is the £500 million Green Bond and £90m of GLA funds that he announced in February 2022. The £90 million of GLA funds will be used to both develop the project pipeline of climate related projects and blend with the proceeds from the green bond issuance to finance the pipeline of projects.

The Financing Facility aims to actively mobilise increased levels of private sector finance to support a significant increase in the scale and speed of climate related projects that are being delivered, either individually or as a portfolio, in pursuit of London's 2030 target.

The GLA has been working with the Green Finance Institute (GFI) to assess a range of options for the 'Financing Facility'. As part of that process it has engaged with numerous

stakeholders from the public and private sector, including London boroughs. It has assessed six options against three key criteria for the Mayor: policy control, operational control, and capital mobilisation. This work considered how each option could supply flexible, low cost, long-term capital to meet demand from the existing project pipeline whilst actively working to stimulate future demand from an ever-increasing pipeline of bankable projects.

The report has recommended two preferred options, an 'in-house' option and an 'arm's length' option, for the structure of the Financing Facility. The first phase of this Facility will be to mobilise private sector finance into climate related projects through the issuance of the Green Bond and this will be undertaken by an 'In-house' team within the GLA. As mentioned earlier the Mayor's Green Bond forms the first phase of his work on the Facility.

Cities Climate Investment Commission (3Ci)

The 3Ci is a partnership of London Councils, Core Cities and the Connected Places Catapult and aims to develop innovative approaches to securing private sector investment into place-based Net Zero portfolios. Using their collective networks and capabilities they are seeking to leverage the combined scale of cities to mobilise finance and drive investment into low and net zero carbon projects across all the UK's largest cities, rather than individual ones.

By aggregating the low carbon investment opportunities across all the UK's largest cities, estimated at a value of at least £206 billion, the 3Ci is creating a proposition which is attracting significant interest from private sector sources of finance. It has developed a concept of blended finance to drive investment across six different asset classes¹ in cities, that will blend the returns from lower risk asset classes into more risky ones to meet investor risk-return expectations which will support delivery of local priorities and address Net Zero across all areas.

This place-based approach to blending finance has not been developed elsewhere and provides a unique mechanism for attracting private sector finance and public sector funding into cities' Net Zero plans and one which we hope other nations, cities and places will be able to learn and benefit from.

Proposed Shared Workstreams

It is proposed that the GLA and London Councils work together in the following three areas to optimise the opportunity for mobilising private sector finance and supporting London's net zero by 2030 target.

These three workstreams are complementary and together create a coherent approach to establishing a bankable pipeline of projects at the speed and scale needed for a net zero by 2030 target, as well as the accompanying financing mechanisms needed to catalyse the flow of private sector finance into that pipeline.

¹ Domestic building decarbonisation, commercial building decarbonisation, renewable electricity generation, transport decarbonisation, waste management decarbonisation and green infrastructure.

1) Project Pipeline development – This is essential for both workstreams and must happen if private sector finance is to be attracted to help London in getting to net zero. We will undertake the following actions:

- The Mayor and London Councils will work together with the London Boroughs, other public sector organisations and businesses to develop an extensive **regional pipeline for London** of climate related projects.
- The 3Ci has worked to identify criteria to assess pipeline projects and shared this with the GLA for comment. The criteria will be used to gather potential projects for the pipeline, along with any delivery plans, from boroughs and other strategic partners to create a database of regional projects. These projects will be at various stages of maturity and will likely require development funding to support the project in getting to a position where it can apply for either grant funding and/or investment finance so that it can move into delivery. London Councils will lead on the initial engagement with boroughs and explain our approach to help ensure a co-ordinated approach that supports the development of a robust and extensive pipeline of projects. This regional project pipeline will contribute to achieving London's net zero target and the projects it contains will/can seek funding/investment from any sources, including both the GLA's Financing Facility and the 3Ci funding mechanisms.
- A broad range of project types will be captured by the regional pipeline, with the ability to categorise it to easily view which projects are suitable for both the single asset class investments being proposed by the Financing Facility or the area-based multi-asset class portfolios being proposed by the 3Ci. The existing Future Neighbourhoods programme creates a good opportunity to pilot the area-based investment model.
- Learning from other partners in the 3Ci can be incorporated into the pipeline development process to promote the open sharing of information.
- This activity will build on the approach and capacity of the Mayor's existing Accelerators to develop the investable pipeline of net zero projects and they will need to be supplemented with additional funding and capacity building at a local and regional level.
- We will work together to identify potential sources of development funding for this regional resource, explore how to create a more self-funding approach for the long-term whilst looking for sources of grant funding in the short term, these could include the Government's UK Shared Prosperity Fund.
- The GLA and London Councils will share information gathered on how to support project development (technical assistance) and how to develop sustainable funding models for project origination which supports both long-term pipeline development and reduces grant dependence.

2) Financing Structures – Given the scale of London and the urgency for action there is opportunity for financing structures to pursue both large-scale single asset investments as well as area-based multi-asset investments so long as each are bankable investments. We will undertake the following actions:

- The funding for these bankable projects and/or portfolios of projects can be pursued through the Financing Facility, where suitable. The first phase will prioritise single asset class projects or portfolios but subsequent phases of the Facility could provide finance for both single asset class projects or portfolios as well as, in time, bankable area-based multi-asset class portfolios
- Explore opportunities for having a closer working relationship when setting up the facility and its resulting governance to include borough representation, allowing it to respond to their funding needs and priorities as well as those of wider London stakeholders
- The Mayor's Green Bond, the first phase of the Financing Facility, will be a source of financing that can be applied to by the most mature and bankable projects in the regional project pipeline.
- Work with the 3Ci to better understand how their funding model could support the delivery of the Future Neighbourhood 2030 programme, an area-based community focussed programme looking to address their environmental issues.
- Communicate green finance work within London's local authorities and explore opportunities to collaborate or share best practice. Authority initiatives include:
 - o The City of London Corporation is developing its Finance for Sustainable Growth initiative. As a global hub for innovation in financial and professional services, it is committed to supporting green entrepreneurs throughout the UK by connecting them to the Square Mile's expertise and resources.
 - o The City of London Corporation, alongside the Green Finance Institute, also hosted the Green Horizon Summit at COP26.
 - o Novel financing mechanisms used by boroughs to fund climate projects and raise local awareness, such as the Islington Community Municipal Investment initiative, launched in October 2021.

3) Shared narrative for Government and other stakeholders – This is essential for both our workstreams to flourish and truly drive a just and fair energy transition. We will undertake the following actions:

- Work together to identify lobbying asks of government and engage with stakeholders within and outside London to inform and gain support for our positions, for example the M10, Core Cities, the LGA and UK100 as well as private sector organisations and networks
- Agree London's asks of the UKIB to support our respective workstreams and the financing of London's project pipeline for reaching net zero
- Continue to engage with private sector investors throughout the process to ensure the structures and approaches we propose and eventually put in place respond to their needs and create compelling investment opportunities for them

Annex A

The focus of each workstream to highlight the overlaps in their approaches

Activity	London Financing Facility	Cities Climate Investment Commission
<p>Creating a pipeline of bankable projects and/or portfolios</p>	<ul style="list-style-type: none"> - This is essential but can be undertaken either within or outside the facility - Current thinking is this activity would sit outside the facility, as we have currently with MEEF - Build on the GLA's Accelerators - Have identified three types of projects: <ul style="list-style-type: none"> - Commercially attractive: bankable projects that have clear and significant revenue streams - Sub-commercial: bankable projects that have clear but smaller revenue streams - Pre-commercial projects: not bankable currently as they have no or a negligible revenue stream - Three asset classes identified for initial financing strategy/investment windows: large-scale social housing retrofit; district energy systems; and electric vehicles and charging infrastructure - Other asset classes to be developed subsequently as models and markets allow, similar themes to the six identified in the 3Ci. 	<ul style="list-style-type: none"> - This is the key focus of the approach and will collate data to establish the first net zero pipeline of its kind. - Proposes to establish capacity and expertise at both the Local Authority and regional level - Have identified six asset classes – renewable energy, domestic and commercial buildings, transport, waste and green infrastructure. - These will be place-based and can include projects in one to all six asset classes. The aim is to deliver them together in an integrated, systemic way in individual locations. - This requires a place-based, multi-intervention project design, that coordinates and brings together individual asset classes. This will look to blend individual components that have limited bankability with others that have clear potential revenue streams to support the deployment of finance.
<p>Establish financing mechanisms for attracting private sector investment into those projects and/or portfolios</p>	<ul style="list-style-type: none"> - This is currently the focus of the facility - Recommendations for the preferred structure of the facility has been made either an 'In-house' or an 'Arm's length' 	<ul style="list-style-type: none"> - This is an integral part of the approach, gaining investment for those pipelines of projects - In an unprecedented public-private financing partnership, it will:

Activity	London Financing Facility	Cities Climate Investment Commission
	<p>entity and the first phase of the Facility, the Green Bond, will be deployed via an 'In-house' GLA Team</p> <ul style="list-style-type: none"> - The Green Bond will provide the first tranche of private sector finance to be invested through the Facility - The second phase of the facility will build on the investment strategy of the Green Bond and identify further 'Investment Windows' for certain investment themes - The investment strategy will inform 'Investment Windows' that will be established to finance either large-scale bankable projects or portfolios of bankable projects, mainly single asset classes but they could include bankable multiple asset classes too. They will be aimed at supporting projects that are predominantly from the sub-commercial sectors listed above. - Public sector funding, where available, will be used to capitalise the facility and blend with private sector finance to meet both the needs of the project as well as those of the investors 	<ul style="list-style-type: none"> > Bring together currently fragmented multi-intervention area-based decarbonisation schemes into one structure that works for investors and local authorities > Deliver local area-based decarbonisation as a public service at scale with associated financial models combining funding and finance to deliver activity as appropriate > Aim to mobilise capital from the UK pension funds and other end investors
Lobbying Government to create a favourable market framework for private sector investment	- A clear work programme, involving a range of stakeholders, to lobby government to create a market framework where externalities are internalised, and low carbon solutions are financially better solutions to invest in	- Working with local government to collectively identify policy barriers and propose solutions to implementing this place-based, multi-intervention model.

Activity	London Financing Facility	Cities Climate Investment Commission
	<ul style="list-style-type: none"> - This market change is especially important in the sub-commercial and pre-commercial sectors where the returns are not sufficient for the private sector to invest on its own - Engage with the UKIB to identify opportunities for them to invest in the facility's funds and/or projects 	<ul style="list-style-type: none"> - Attaching financial disincentives to high carbon activities - Explore mechanisms to monetise co-benefits and avoided costs - Engage with the UKIB to identify opportunities to fund area-based multi-asset portfolios