

Subject: Investment Fund Update and Funding Approvals - Green New Deal Fund
Report of: Principal Economy and Strategy Manager
Portfolio: Jobs, Innovation and Growth

Report Summary

In March 2020, NTCA approved an Energy, Green Growth and Climate Change Blueprint and agreed a £24.2m investment fund allocation until 2023, which included a £10m for a Green New Deal Fund.

In September 2020, Investment Panel agreed an approach for the Green New Deal Fund, with £9m to be utilised to establish the actual Green New Deal Fund, and up to a maximum of £1m to be utilised to establish technical capacity for the development of a robust low carbon and energy project pipeline. In March 2021 Investment Panel approved an NTCA contribution to North East Energy for Growth Accelerator to the total value of £495,000 from the £1m pipeline fund. NTCA launched a call for proposals to shape the fund on 25th September 2020. The purpose of this report is to request the approval of £9m investment in a North of Tyne Green New Deal Fund managed by Amber subject to the satisfactory outcome of financial due diligence appraisal.

The Green New Deal Fund is expected to leverage private sector resources to deliver an £18m investment, enabling the North of Tyne to take a real lead in an area that will be fundamental to future growth, recovery, and the achievement of net zero. Subject to the approvals sought in this paper, the Fund would be launched in Autumn 2021.

Due to the commencement of the first UK lockdown in March 2020, the scheduled Cabinet meeting on the 24th March was cancelled and it was agreed with Mayor Driscoll, as Chair of Cabinet, the Chief Finance Officer and the Monitoring Officer that all the decisions expected to be made at the Cabinet meeting on 24 March 2020 would be made by the Interim Head of Paid Service as Delegated Decisions in accordance with HPS11 to ensure the efficient conduct of the Authority's business.

On the 1st of April 2020 the Interim Head of Paid Service, under delegation HPS11, agreed the investment fund allocation for the Green New Deal Fund and agreed that the fund delivery mechanism, relevant call documentation and business case applications for the Green New Deal Fund could be subsequently approved by the Interim Head of Paid service in consultation with Investment Panel and the Portfolio Holder.

Recommendations

The Head of Paid Service is asked to

- i. Approve investment of £9m for a North of Tyne Green New Deal fund and
- ii. Agree that the Monitoring Officer and Section 73 officer progress the development of a Limited Partnership with Amber to deliver the North of Tyne Green New Deal Fund

1. Background Information, Proposals and Timetable for Implementation

Proposal Name	North of Tyne Green New Deal Fund
Lead Organisation	Amber & NTCA
Delivery Areas	North of Tyne wide
Timescales	September 2021 – March 2025
Project Value	£18,000,000
Grant / Loan amount requested	£9,000,000
NTCA Budget Implications:	This element of the Green New Deal Fund forms part of the £24.2m Energy, Green Growth, and Climate Change Blueprint of the Investment Plan and the £10m allocation for a Green New Deal Fund and pipeline development.

- 1.1 The scale of the challenge of moving to net zero, and opportunities associated with Green Growth, were outlined to Cabinet in March 2020. Although Covid-19 has had significant societal and economic impact since that report was approved, a green and just economic recovery continues to form a clear and growing part of national and international discourse. As plans for recovery are developed within the region, there is a real opportunity to deliver on the twin benefits of stimulating the economy to create jobs while accelerating the green transition. The NTCA Green Growth approach creates the conditions for radical innovation across our industries and public services – supporting collaborative interventions that stimulate the market to create new jobs and growth, demonstrating bold ambition around carbon reduction. This will allow us to grow our capacity as a region to build the skills base to support new jobs and transition to cleaner ways of working, aligning with wider green growth policies such as 'green prescribing' and harnessing the natural capital of the area. The Green New Deal Fund will catalyse investment in green growth, stimulating innovation and business growth in the areas of heat decarbonisation, energy efficiency, renewables, energy systems, low carbon transport and natural capital. In parallel, NTCA will work with Government and the private sector to match and multiply this commitment with additional funds
- 1.2 NTCA launched a call for proposals to deliver the fund on 25th September which closed on the 19th November. Applicants were asked to illustrate how they would intend to deploy the fund within the timeframe set, manage a diverse portfolio of clients and proposals and indicate expected leverage of investment co-financing options alongside NTCA's investment. NTCA also stipulated a requirement that a Green New Deal Fund Advisory Panel (to include representatives from the Combined Authority, Local Authorities and the private sector). The aim is to ensure this is a lean, commercially experienced, and outcomes-focussed Panel that brings both energy sector and local knowledge.
- 1.3 Several organisations expressed an interest and two detailed proposals were submitted. Two proposals were received and underwent evaluation in advance of consideration by Technical Officers Group and Investment Panel.
- 1.4 The proposal from Amber achieved the highest score with a thorough and evidenced based approach entirely in line with the specification set out the call definition document. Their ability to stimulate demand for local projects, SME growth and supply chain benefits in the region due to proximity to market as well as their ability to simultaneously achieve verifiable outputs on carbon reduction, energy efficiency and renewable energy

generation within timeframe of programme were particular strengths. Amber's wealth of expertise in managing public sector funds in the low carbon field and ability to generate significant new leads was also highlighted in addition to extensive experience of managing these types of fund and the strong process and procedures in place to manage the Green New Deal Fund. Amber Infrastructure Limited ("Amber") applied to deliver a Green New Deal Fund and based on their experience of running the LEEF, MEEF and SPRUCE funds, it is the intention that Amber Fund Management Limited (a sister company of Amber Infrastructure Limited) will manage the Green New Deal Fund.

1.5 Amber is a leading equity investor, debt arranger and investment fund manager across the infrastructure, energy and real estate sectors, headquartered in the UK and operating internationally through ten offices. Amber's key UK offices are in London and Edinburgh but they have local presence up and down the country through asset managers who are located close to the assets that they are managing, which will be the case in regards to this fund too. Amber is a leading fund and asset manager of infrastructure assets with a particular focus and a proven track record in the UK market, having deployed over £270 million into low carbon infrastructure projects across London and Scotland, via London Energy Efficiency Fund, the Mayor of London Energy Efficiency Fund and the Scottish Partnership for Regeneration and Urban Centres fund. In addition, Amber is the joint fund manager for HM Treasury for NDIF, a public sector fund created to roll out of digital infrastructure across the UK. Amber has market-leading experience of establishing and operating funds that successfully deliver performance and return targets for both public and private sector investors.

- 1.6 The proposal developed by Amber centres around the following elements:
- Leveraging £9m additional private sector investment to NTCA investment of £9m resulting in an £18m programme with a 50% intervention rate. Total fund management costs will not exceed 10% of NTCA investment.
 - A mixed grant/loan/equity model - a financial instrument with an evergreen component based on a Limited Partnership model.
 - A focus on infrastructure projects as well as business growth and innovation with financial models that could be employed to bring forward projects.
 - The Fund would invest directly into SMEs based in North of Tyne. This funding will be for growth capital which will allow the SME to invest in its R&D, training and workforce, enabling them to access larger contracts, including those associated with Green New Deal investment
 - Technical and investment support will be provided to project sponsors to ensure viable projects are brought forward for investment. This support will be aligned with support brought forward through the North East Energy for Growth Accelerator programme.
 - The Fund would create high skilled jobs by delivering innovative projects across growing sectors. This will support upskilling and create apprenticeships or work placements for example the applicant would look to create a short-term work experience programme for young people interested in green finance
 - The Fund would work closely with existing initiatives including the Energy Catalyst and local universities to review high Technology Readiness Level projects for consideration and has confirmed there will be an initial period of engagement with the local business development support ecosystem.

It is anticipated that the North of Tyne Green New Deal Fund will be operational for businesses to access from September 2021 onwards.

- 1.7 As part of the fund, a Green New Deal Fund Panel will be established which will provide oversight for the delivery of the programme and ensure that the programme aligns to regional priorities whilst remaining responsive to challenges and opportunities over the lifetime of the programme. The Green New Deal Fund Panel will provide lean, commercially experienced, and outcomes-focussed oversight.
- 1.8 The Green New Deal Fund will be formed as an English limited partnership and the Combined Authority will invest into the Partnership, this will be done via the Combined Authority becoming a Limited Partner alongside an entity established by Amber to hold its investment - these are the Limited Partners. The general partner of the Fund will be an English limited company and the partnership will be governed by a Limited Partnership Agreement which is agreed between all partners. Using a separate legal entity for this purpose protect the Combined Authority from risk of unlimited liability. The general partner will, acting on behalf of the Partnership and in its own capacity enter into a tripartite Investment Management Agreement with the selected External Fund Manager. The Investment Management Agreement will require that the Partnership be managed in accordance with the LPA and establish appropriate governance over investment decisions.
- 1.9 The Limited Partnership structure is a model used to deliver such funds across the UK and will provide a robust framework to deliver the Green New Deal Fund as originally envisaged by NTCA Cabinet, provide the ability to demonstrate the effectiveness of this investment model. The first Green New Deal Fund Panel Meeting will approve the governance and operation policies of the GNDF, including the Investment Policy which will direct final recommendations for funding approvals under the Green New Deal Fund. The general partner will be ultimately responsible for administering the awards and making actual final decisions, in line with the Investment Policy - which needs to be agreed by all partners and following consultation with the Green New Deal Fund Panel. Through the development of the Limited Partnership Agreement, NTCA will include relevant controls but the general partner must make the decisions and run the fund to ensure that 'Limited' Liability is retained by the NTCA as required by the Limited Partnership legal requirements.

Financial and Legal Due Diligence

- 1.10 External legal advice sought by NTCA and provided by DWF has confirmed that the Limited Partnership is an appropriate mechanism to deliver a fund such as the Green New Deal Fund and to manage risk for the Combined Authority.
- 1.11 Independent financial due diligence of the proposal was commissioned and completed by UNW. The independent appraisal confirms that Amber has the expertise to deliver the Fund; has the relevant process and procedures in place to manage investment and risks; and as an organisation have the ability to effectively manage their resources and maintain positive results.
- 1.12 The proposed application process for the Fund was reviewed in detail, with the appraiser assessing this as a thorough process. Commercial and financial due diligence will be undertaken internally by Amber, who will also carry out early stage technical and State aid/subsidy reviews. The financial controls proposed for the scheme are appropriate and are in line with those adopted on other schemes which have been subject to external audit and evaluation with no issues raised. The most recent accounts were reviewed which show a strong financial position.

- 1.13 The proposal incorporates an element of recoverable finance, of which almost 70% is in the form of loans and over 10% recoverable equity, another 10% will be allocated as grants and the last 10% will cover management costs of the fund. A funding model has been provided which assumes eight loans in total, equally split between private and public sector, two equity investments and two grants. This assumes that the full £9m will be deployed by March 2024, with circa £800,000 being received by March 2025 from loan repayments and interest. This is indicative only as the actual profile will be determined by the number and size of applications to the fund. Amber has experience of managing three very similar schemes in London and Scotland which have invested £261m to date. Amber Fund Management Limited, the proposed fund manager, is FCA registered under the reference number 495729 and Amber will apply for FCA approval for the Green New Deal Fund upon completion of the Limited Partnership arrangement between NTCA and Amber.
- 1.14 As part of the financial and legal due diligence the following points were noted and will be addressed as part of the development of the partnership agreement.
- Amber proposes to draft a measurement and valuation policy for the fund for approval by the Green New Deal Advisory Panel. This will clearly set out how the outputs will be assessed and monitored for each project.
 - Additionality, in terms of assessing whether individual proposals would not proceed without GNDF support and whether the funding required is the minimum necessary is not specifically addressed within the approvals process and therefore Amber, as the fund manager, should ensure that the application process for this fund includes a conclusion within each appraisal to demonstrate additionality.
 - Any contracts for services proposed to be entered into by Amber on behalf of the Fund are subject to public procurement regulation 2015 and these contracts should be competitively procured.
 - Amber have set out the Subsidy control position for the fund based on state aid advice for other similar funds, independent legal advice should be commissioned specifically for the GND fund and reviewed by NTCA.
 - The Limited Partnership Investment policy should include a detailed proposal for realising and reinvesting recoverable investments (equity investment, repayable grants, conditional loans and loans) is agreed by NTCA. The partnership agreement and investment policy should also include provisions in regard to review points for the ongoing management of the fund past March 2025.
 - The Limited Partnership Agreement should limit management costs to the level agreed (to not exceed £900,000) and that the payment of such costs is evenly spread over the period of the fund.
- 1.15 Investment Panel considered the outcome of the call process on the 16th March and recommended that the Head of Paid Service should approve investment of £9m in a North of Tyne Green New Deal Fund managed by Amber Infrastructure subject to the satisfactory outcome of financial due diligence appraisal. Independent legal due diligence was also commissioned by NTCA and provided by DWF.
- 1.16 It is recommended following the satisfactory completion of the financial and legal due diligence that the Head of Paid Service approves investment of £9m in a North of Tyne Green New Deal Fund and that further work commences to establish a Limited Partnership.

2. Potential Impact on Objectives

2.1 Programme delivery as described in the report is consistent with the priorities set out in NTCA's vision and the Energy, Green Growth and Climate Change Blueprint agreed in April 2020.

3. Key Risks

3.1 Risks associated with the funding application have been considered as part of the application and appraisal process. Mitigation of risks will be undertaken as part of the development of the Limited Partnership Agreement.

4. Financial and Other Resources Implications

4.1 Resources are available in the NTCA budget to cover the proposed investment of £9m in a Green New Deal Fund. The appropriate accounting for this investment will be considered alongside the development of the Limited Partnership Agreement.

4.2 Independent financial due diligence of the proposal was commissioned and completed by UNW to provide additional assurance in advance of contracting. The independent appraisal confirms that Amber has the expertise to deliver the North of Tyne Green New Deal Fund; has the relevant process and procedures in place to manage investment and risks; and a demonstrated track record delivering similar investment programmes in this sector.

5. Legal Implications

5.1 Independent legal advice was commissioned as part of the legal due diligence of the proposal. The comments of the Interim Monitoring Officer are included in the report.

6. Equalities Implications

6.1 As required by Section 149 of the Equality Act 2010, the Combined Authority has considered its obligations regarding the Public Sector Equality Duty and there will be no anticipated negative impact on groups with protected characteristics from these proposals.

6.2 In addition, NTCA will encourage Amber to be mindful of our corporate policy and direct them to guidance provided by the Equalities and Human Rights Commission.
<https://www.equalityhumanrights.com/en/advice-andguidance/guidance-businesses>.

7. Inclusive Economy Implications

7.1 The Inclusive Economy impact of this project was considered as part of the Appraisal process. The Combined Authority believes that the North of Tyne Green New Deal Fund will positively contribute to creating a more inclusive economy in the North of Tyne.

8. Climate Change Implications

8.1 The Combined Authority has considered the implications relating to climate change in decisions regarding the delivery of the North of Tyne Green New Deal Fund and expects the Green New Deal Fund to enable the North of Tyne to take a real lead in an area that will be fundamental to future growth, recovery, and the achievement of net zero.

8.2 In addition, NTCA will work closely with Amber to identify ways in which support provided to end beneficiaries can be linked to broader measures to support decarbonisation and climate change co-benefits, including but not limited to resilience to climate change impacts (climate change adaptation)

9. Consultation and Engagement

Consultation has taken place with a broad range of national and regional stakeholders to develop the call definition document inviting proposals to deliver a Green New Deal Fund. Proposals were evaluated by officers at NTCA, Local Authorities and the North East LEP, and have been considered by Technical Officers Group and Investment Panel.

10. Appendices

N/A

11. Background Papers

NTCA Delegated Decision Report 1 st April 2020, Investment Fund Update, Part B: Energy, Green Growth and Climate Change – a North of Tyne Blueprint
<https://www.northoftyne-ca.gov.uk/wp-content/uploads/2020/09/20200401-InvestmentB-report.pdf>

12. Contact Officers

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13. Glossary

14. Sign-off

1) Mayor and Portfolio holder Yes	2) Director/SMT Yes	3) Chief Finance Officer: Yes	4) Monitoring Officer: Yes	5) Head of Paid Service: Yes
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