



Welsh Government

Consultation – summary of responses

Green Growth Wales:

Investment Support

April 2016

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.

This document is also available in Welsh.

1. Background

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.

Last year, the Welsh Government began to consider ways to offer practical investment support to organisations wishing to invest in green growth projects. Evidence suggests that there was a gap in financing for public and private sector green growth projects, and we decided to test this with stakeholders.

We published a consultation, *Green Growth Wales: Investment Support* inviting evidence of the barriers faced in successfully financing green growth projects, and invited views on a series of high level options.

This consultation included questions in the following areas:

- a. *Technology focus* – question 1 explored the kinds of green growth projects that should be the focus of any support;
- b. *Barriers to progress* – questions 2 to 4 looked at the barriers that we felt may be facing green growth projects at the moment and invited suggestions of others;
- c. *Funding options* – questions 5 to 9 considered a range of possible funding options, and explored which organisations might wish to access them.

This was an early stage consultation on some broad options. We want to understand the needs of organisations who may use any investment products we support, and we recognise the need for ongoing dialogue.

This document is a summary and analysis of the responses to the consultation, and summarises the next steps in building Green Growth Wales: Investment Support.

2. Green Growth Wales Investment Support: summary of responses

a. Overview

The consultation ran from 20 November 2015 until 29 January 2016. Forty responses were received in total, with 39 being generally supportive of the aims put forward by the consultation. We received 19 responses from the private sector, 13 from the third sector, seven from the public sector, and one from an individual.

Responses supported the focus on resource efficiency, renewable energy and energy from waste to be included in Green Growth Wales: Investment Support.

The list of barriers the consultation identified was confirmed by many responses, and some additional barriers and difficulties were raised.

Many responses indicated that current financing options were too expensive, or difficult to access in some way. There was broad support for low interest loans and repayable grants. A number of responses also highlighted the importance and distinctive nature of the support needed by community energy projects too.

b. Technology focus

<p>Question 1. Do you agree with the focus on renewables, resource efficiency (including energy efficiency) and waste infrastructure projects?</p>

All 29 responses given to this question agreed with the focus on resource efficiency, renewable energy and waste infrastructure, with none disagreeing.

There was particular emphasis on the importance of renewables from 13 respondents, with 11 highlighting the importance of resource efficiency, and 8 focusing particularly on waste. Many of the early project investments made by Green Growth Wales: Investment Support have been in public sector energy efficiency projects where we have a robust pipeline of opportunities. These offer good payback and carbon savings, and ensure that the recyclable funding is returned quickly for further investment. Further work is now needed for us to understand the full potential of renewable energy and waste infrastructure projects across Wales.

There was also support for particular technologies, such as energy storage and smart grid infrastructure. Typically these smart living projects are currently at an early, pre-investment stage of development.

The Welsh Government sees an important role for smart living innovation projects. We continue to be closely involved in the development of many smart living projects, and are watching for early signs of finance difficulties and other barriers that we can help to address.

c. Barriers 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 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.

Twenty one respondents agreed with the assessment of the barriers set out in the consultation. Of the responses:

- four private sector responses and three community energy sector responses mentioned planning as a significant barrier;
- two private sector responses and two community energy sector responses discussed banks not understanding the projects, and demanding too high collateral or too fast repayment for the project to sustain;
- three responses, across public, private and third sectors, mentioned issues with the electricity grid, in particular the cost and speed to resolve issues around supplying renewable energy to it;
- three community energy sector responses stressed that the capacity and capability to confidently deliver projects is an issue for community energy;
- three community energy sector responses also discussed the lack of technical support, including legal and accountancy support.

Some of these additional barriers are non-financial, but may impact on how projects could be financed. In particular, these barriers may increase early stage costs of projects during the harder to finance periods of project development and construction.

Ten respondees, mixed across public, private and third sectors, felt that accessing finance during the development stages was problematic.

Five respondees, all relating to community energy developments, expressed difficulty accessing finance during the construction stage, with none expressing the same about the operational stage.

Many responses emphasised just how costly the development stage could be. Loan providers often assess these projects as high risk and accessing sufficient finance is particularly difficult at this stage.

A number of responses, predominantly from the community energy sector, suggested that investors could require very high level of skills from applicants at the construction stage, and that assistance in this area was helpful. Welsh Government has recognised the very important role that organisations who are not experienced energy developers can play in meeting the ambitions of Green Growth Wales. We are working to provide the kinds of support needed to help these projects go ahead; public bodies in Wales can now access the support they need through Resource Efficient Wales, for technical support, Green Growth Wales for Commercial support and Refit Cymru for the delivery of energy performance contracts. Community led energy projects can access support from the Local Energy Service.

A comment received about banks from a private sector response:

“Banks, when approached for finance for the build, were unhelpful and required far too much collateral. Fees and interest rates suggested were ridiculously high. I began to consider crowdfunding which would have been much more satisfying than dealing with the High Street banks.”

d. Funding options

Question 5. To what extent would you/your organisation wish to access funding from any of the described 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, Leveraged funding – creating a new investment vehicle, Using an existing fund.)

Question 7. Excluding non-repayable grant, what other funding options should we consider?

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?

Six responses mentioned that they would be interested in accessing all of the forms of funding listed above. Natural Resources Wales said *“As the nature of green growth could take a wide and varied path the more intervention vehicles that are available the better – so none of the options should be ruled out at this point.”* Welsh Government agrees that flexibility of financial products to best meet the needs of projects will be important.

We need to ensure that we do this in ways that don’t either increase the costs of running the investment solutions, as these overhead costs would reduce the amount of money available for investment, or increase the complexity for applicants as this would increase their costs.

Five responses suggested low interest loans in particular were attractive to them, with interest in this coming from both the public and the private sector.

The following options also received support:

- four suggested they would access repayable grants, three of whom were public bodies;
- four responses suggested direct loans from Welsh Government would be attractive to them, with three in the community energy sector and one in the public sector;
- four responses believed putting money into an existing fund would be sensible, with three in the community energy sector highlighting that there was otherwise a risk of duplicating the work of existing funds;
- three responses, two from the third sector and one from the private sector, gave their support to a levered funding vehicle by virtue of the scale of investment it could achieve;
- three responses across private and third sectors felt encouraging the market on a project by project basis was a positive approach.

A number of other ideas were suggested as well, including underwriting facilities, supporting crowd funding, and creating a Welsh Energy Supply Company that could help reduce the cost of energy to the consumer. Crowd funding for renewable energy was thought to increase community involvement in these schemes, empowering communities and democratising the energy market.

Each of these suggestions will need to be weighed up against other possible investment solutions, and the first steps will be for Welsh Government to understand them in more detail. These new options may help to deliver the investment products set out in our consultation rather than replace them.

Comment from a private sector developer on terms offered for investment:

“Generally, the terms make the project uneconomical or the funds advanced not sufficient for the project to proceed.”

A number of respondents made the case that they were deterred from accessing finance products available now:

- five across the third and private sectors were put off by high initial fees, in particular for due diligence costs at the early stages of projects;

- four responses mentioned too low an internal rate of return, of which three were from the public sector;
- four from the private and third sectors were deterred by interest rates that are too high.

It will be important that any investment products created as part of Green Growth Wales: Investment Support strike a fair balance of costs and interest.

e. Other issues reported

Sixteen of the responses raised uncertainty around changes to UK government policy as a barrier to project delivery. For example, comments included: “... *in relation to renewable energy and resource efficiency... UK Government policies have significantly impacted on viability and investor confidence.*” Welsh Government continues to stress the importance of a stable policy and subsidy environment in order to projects to be delivered successfully.

Several responses focused on support for community groups engaged in delivering green growth projects. Community Energy Wales said, “... *we feel that WG should make a special case for supporting community energy developments, which even post the recent DECC FIT Review still hold the potential for enhancing the sustainability of (predominantly) rural Welsh communities.*”

Our recently launched Local Energy Service delivers tailored support and investment of the kind that community energy groups have stressed as needed, and these projects form an important part of the delivery of Green Growth Wales.

3. Next steps

Overall, responses to the consultation were supportive of the approach we are taking to developing Green Growth Wales Investment Support. The responses showed a clear need for financial products that the current investment market is not offering at the scale or pace needed. In particular, products that enable development stage financing without very high setup fees and interest rates are highlighted as a gap in currently available products.

Our view, based on both our initial evidence gathering and the responses to this consultation, is that the nature of interventions required varies for different sectors.

a. Public sector

We will continue working with public sector bodies to develop energy efficiency and renewable energy projects for investment. We have been investing through Salix, which provides interest free loans to the public sector, for a number of years. We have increased this investment by £3.5m in the current year. We have also created Investment 2 Save Green Growth offering repayable grants. A number of responses highlighted that rates of return on projects were too low to go ahead, and this will need to be a focus of our ongoing technical and commercial support in this sector.

In total, green growth schemes have already seen over £21.5 million committed to projects including streetlight replacements, LED lighting in fire stations and hospitals and heating and lighting replacement in schools. In our recent budget for 2016/17, £13.4 million more has been announced, making a total of £35 million to date. This is all invested in revolving funds, with repayments reinvested in further green growth projects as they are received. The effect of this recycling is that the original £35 million initial investment can support more than £140 million of investment over 20 years. We expect this level of investment to save over £450 million on public sector energy bills over the lifetime of the measures implemented and more than 1.8m tonnes of carbon emissions, and we are considering further investments.

b. Community sector

Consultation responses highlighted the important role of the community energy sector, and the difficulties faced in financing these projects. Welsh Government has recently launched the new Local Energy Service, providing dedicated support to develop projects, and a direct investment fund through Finance Wales. Consultation responses stressed the importance of capacity and capability alongside technical support, grid connectivity problems and development stage finance as important issues for this sector in particular. The Local Energy Service support is targeted to provide the support and development stage finance sought by many responses in this sector. Grid connectivity problems will require a strategic solution that is suitable for all sectors, in particular noting that community energy projects can struggle to respond with the speed of private developers, and that this has disadvantaged some previously.

c. Private sector

Consultation responses identified concerns about access to commercial finance for green growth projects, particularly in the early stages of project development. A demand for low interest loans was identified in responses, and we will work to identify how robust this demand is. Alongside this, development stage barriers around gaining planning consent and grid connectivity were highlighted. Reducing costs around these barriers may help to alleviate this difficulty of accessing finance, and we will explore this issue further.

A number of additional investment options were identified, and we will work to understand these in more detail. A lack of understanding of these projects by banks was highlighted as an issue. This emphasises that not all of these solutions need to be delivered directly by Welsh Government, and we will use our leadership role to help develop the options that don't require our direct investment.

Creating products to meet this demand will require a much more detailed understanding of the future pipeline of projects, and the project stages at which they expect to seek investment.