Financing Ambitious Local Climate Objectives

WP 7 – Dissemination & communication – examination of the replication potential to other European regions

WP leader – Climate Alliance

FALCO

Financing Ambitious Local Climate Objectives

D.7.3. General Press Release
Deliverable leader: Climate Alliance

Deliverable:	D.7.3. General Press Release
Author(s):	Annick Gommers (Tractebel), Mikaël Angé (Tractebel) Erik Van Agtmaal (Factor 4), Antoon Soete (3^E), Luc Wittebolle (SuMa Consulting)
Reviewer:	Andy Deacon (Climate Alliance)
Date:	May 2019

Grant Agreement N°:	No 747331
Starting Date:	01 June 2017
Duration:	48 months
Coordinator:	TRACTEBEL

1 Introduction

The FALCO project is funded by the EU's Horizon 2020 programme. The main objective of the project is to further develop and pilot financing solutions and accompanying (policy) measures in support of local climate action plans in Flanders.

This unique combination of financing and supporting policy measures aims to overcome financial and non-financial barriers to energy efficiency investment and will unlock the large untapped sustainable energy investment potential in the region.

More than two third of the local authorities in Flanders (Belgium) have signed the Covenant of Mayors (CoM), committing to reduce their greenhouse gas emissions by at least 20% by 2020 and/or 40 % by 2030. Many of these local authorities have committed to look beyond the CoM requirements, aspiring to achieve climate neutrality by 2050, sometimes even earlier.

Flemish CoM signatories have prepared ambitious local climate action plans containing a vast array of emission reduction measures targeted to different stakeholders. Given the sheer investment volume, these local climate action plans together could amount to a powerful economic recovery plan. Unfortunately, most of these plans lack a comprehensive and robust financial plan.

The FALCO project focuses on bridging this gap between planning and implementation, by putting in place relevant financial solutions that will unlock ambitious local climate action plans.

FALCO addresses this problem by developing financing solutions to accelerate energy-saving investments and achieve the implementation of ambitious local climate plans.

Identified financing solutions will be tested in real life throughout the FALCO project, by funding a project volume of at least 17 Million euros, split into three main categories: energy renovation

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 747331

of public buildings, energy renovation of private buildings and energy efficiency investments for SME’s.

Intermediate results, as described in the paragraphs below, have been made available on the FALCO website. A Newsflash on the results has been sent by mail to ca. 140 actors in Flanders.

This project has received funding from the European Union’s Horizon 2020 research and innovation programme under grant agreement No 747331

2 Intermediate results

2.1 How to get energy savings in businesses in a higher gear?

May 6, 2019

Promoting energy efficiency among companies and SMEs is not always easy. Business leaders focus primarily on their core processes and seek investments with a high return. For many companies, energy costs represent a limited share of their total costs and often energy-saving investments have a long payback period, which means that they are not always tackled as a priority.

This means that there are quite a few transaction costs for third party investors & Energy Services companies to set up a cooperation with SMEs via Energy Performance Contracting (EPC), which often leads to a focus on so-called low-hanging fruit with relatively short payback times. This kind of solution is already available in the market (e.g. leasing of LEDs, light as a service).

In the FALCO project, these bottlenecks were discussed in more detail and workable solutions were sought to get energy efficiency into a higher gear.

One of them was to focus on so-called network companies. Think of retail stores, bank branches but also nursing homes that are increasingly part of larger groups. Often these different branches function as a kind of SME, they employ a relatively limited number of people at each branch, they have their own budgetary responsibility and targets that must be achieved. However, compared to individual SMEs, these network structures result in transaction costs that are significantly lower, allowing projects to be set up with a longer payback period and consequently higher energy savings.

A second way to improve the bankability of Energy Performance Contracting EPC projects in companies is to combine energy savings with investments in renewable energy. This makes the revenue streams much more stable and thus less risky (there are income streams from renewable energy incentives such green certificates and metered energy generation and use data) which benefit the project's bankability and allows for new investments with longer payback periods and thus higher energy savings.

Finally, the extent to which an “EPC light” could be set up to move away from project financing, which requires a certain scale of investment in energy saving measures (minimum EUR 2 million), was examined. By then selling the future income stream from energy bills through the contract (so-called “sale of receivables”) to a financial institution and combining this with a performance-based service fee, an alternative could be developed that enables smaller EPC projects and does not burden the ESCO's balance sheet. Such a performance-based service fee consists of the cost of the maintenance of the installations as well as a fee for the ESCO for the management and monitoring of the project. However, if the energy savings are lower than initially foreseen in the business case, this service fee is adjusted downwards. Conversely, in the case of higher energy savings, the additional energy savings are divided between ESCO and the customer, usually according to a 50/50 distribution. In this respect the energy savings risk is taken by the ESCO whereas the credit risk if for the financial institution.

These three approaches have been tested in two pilot projects. This has been done in close collaboration with Wattson – a subsidiary of 3E that specifically focuses on the realization of Energy Performance Contracts (EPC). A first EPC that focusses on network companies in combination with a portfolio that consists of investments in both energy savings and renewable energy, has been signed by Wattson with the nursing home operator Armonea, in which 49 nursing homes were modernised. A second EPC based on a sale of receivables has been realised, again by Wattson this time with the Sint-Jozefinstituut in Bokrijk as counterparty. The receivables could be sold to Belfiusbank.

2.2 Energy Renovation loan 2.0 : higher, faster, easier!

May 6, 2019

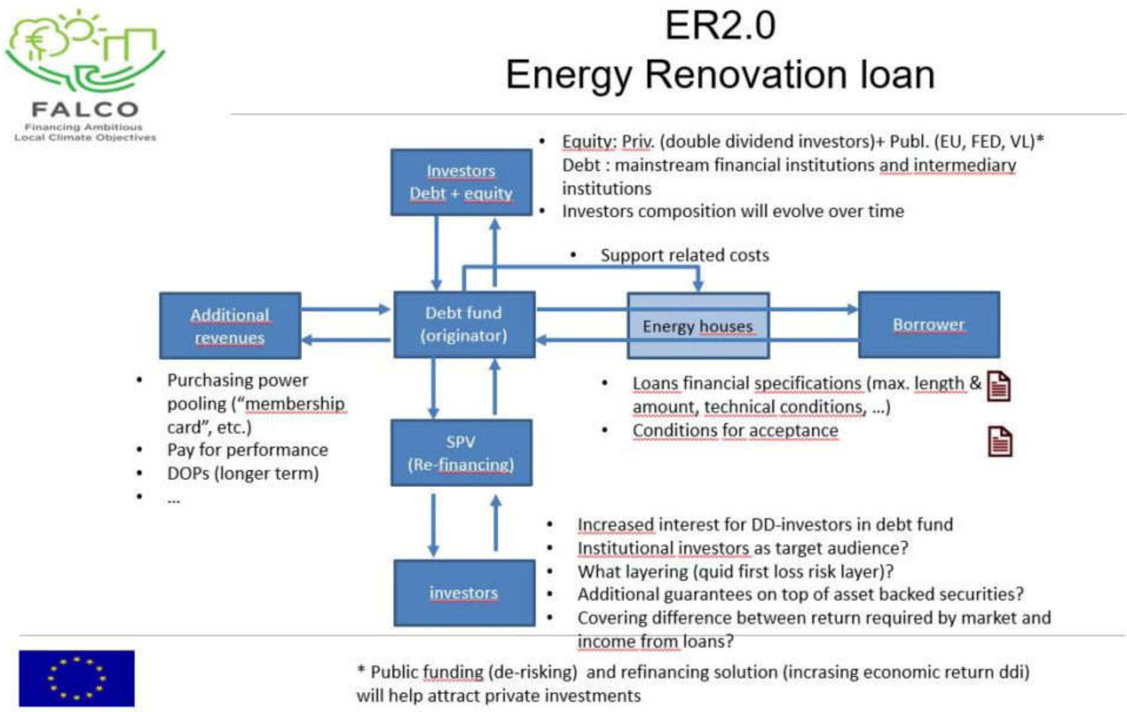
Around twenty Energy Houses spread throughout Flanders currently provide technical and financial support to assist households in improving their homes' energy performance. In recent years, the Energy Houses granted approximately 5.000 "Flemish Energy Loans" per year to households, and assisted them in many different ways with realising their energy renovation plans. The reorganisation of the Flemish Energy Loan (2019) maintains the Energy Houses as a key actor in the Flemish energy renovation arena.

In order to further accelerate and deepen energy refurbishment and renovation, we are currently exploring alternative options for a new **Energy Renovation loan** (**ER 2.0)**, in the context of the FALCO project, in close collaboration with several Energy Houses. The new personal loan's key features are as follows:

- A **higher maximum amount** (up to 50.000 euro) can be borrowed compared to the current system (max. 15.000 euros), so as to allow households to combine several energy efficiency measures and achieve higher energy efficiency ambition levels;
- A **longer maturity** (up to 20 years) than other loans currently offered on the market. This enables borrowers to spread payments over a longer period and potentially to borrow higher amounts but paid back over a longer period, keeping monthly instalments more manageable.
- A **modular** approach to **advisory & support services** provided by the Energy Houses so as to align the latter's assistance with the needs of more complex and integrated energy renovation investments.

The financial solution currently under consideration is summarised in the picture below.

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 747331



The building blocks of the solution are the following:

a. A **Debt Fund**, structured as a revolving fund and offering ER2.0 loans (via the Energy Houses) to households for the energy renovation of their homes;

b. A **standardised ER2.0 loan** offered via the Energy Houses;

c. **Additional revenues** that will be used to cover (part of) the support and advisory services provided by the Energy Houses. A Membership Card System is being investigated here (see link to the MCS webpage);

d. A **refinancing solution**, e.g. through securitization, to accelerate the rotation of cashflow in the revolving fund and, hence, the granting of additional ER2.0 loans.

Discussions with potential investors, such as public institutions, commercial banks and private investors, are ongoing.

2.3 Financing climate objectives for local government buildings – from a strategic vision to concrete financing solutions

May 6, 2019

A growing number of Flemish municipalities will start to develop Sustainable Energy and Climate Action Plans in the framework of the Covenant of Mayors 2030 during 2019. These local authorities commit to take actions with the aim to cut CO_2 emissions by at least 40% by 2030 and increase resilience to climate change. Part of the action plans is the accelerated improvement of the energy efficiency of public buildings, with the objective to achieve a climate neutral public building portfolio by 2050 or earlier.

Financing solutions are being developed through the FALCO project to support this objective.

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 747331

The building and real estate portfolio of the province of West-Flanders and the province of Flemish-Brabant in Belgium are being used to develop and test these solutions. Both provinces have the ambition to realise a climate neutral building portfolio by respectively 2030 and 2040.

An initial analysis of the situation in both provinces indicated the need for a strategic real estate vision and the importance of good data and information to support well informed decision making.

What are the social tasks of a local authority in the future? What are the trends that will have an impact on the future demand for buildings? What are the functions of the current buildings and which functions will be required in the coming years and decades?

The answers to these questions are used by both provinces to achieve a better picture of the building portfolio required in future. This is then compared with the existing portfolio to define what has to be changed at individual building and property portfolio levels. This comparison exercise provides the information to estimate potential income from the building portfolio and of the costs to make it sustainable.

Financing solutions are developed in parallel to this process. One of the conclusions in both provinces is the strong preference for public financing instead of third-party private financing. The healthy budgetary situation of both provinces makes this also possible. As a result of this situation, the focus within FALCO has switched to the development of financing solutions to pay back initial investments. This is possible through the realisation of (energy) savings, but also through the generation of income from the building portfolio itself. A result of this approach is the ability to minimise the total cost of the whole transition process for the taxpayers.

One of the financing solutions that has been developed is based on the maximisation of energy savings within a cost neutral budget. Classic Energy Performance Contracts (EPC) in Flanders lead to energy savings of around 27% in comparison with the baseline . By adapting this concept, it is now possible to increase the energy savings to around 40%. This new EPC approach has been developed by Factor4 and is an important contribution to the funding of ambitious climate objectives of local authorities.

2.4 Speeding up deep renovation of social housing

<u>May 6, 2019</u>

Deep renovation of social houses is very ambitious. The sector struggles with an outdated housing stock. Financial means are also limited. Even with the use of very advantageous loans from the Flemish Social Housing Association (1% interest rate loans), it can be hard to make repayments via rental income. In addition, the energy savings go completely to the tenant, though this is the correct socially just approach. In other words, energy-saving investments in social housing are not obvious. That is why they were included as a breakthrough project within FALCO.

We wanted to offer a solution when looking for financing solutions. A few possible solutions have been explored:

- Solutions that create financial resources for the social housing companies. These include those that generate extra income or use a financial instrument such as securitization, which allows future earnings to be made available earlier;
- Solutions that make use of third party financing. In such case, a third party finances the investments and obtains income from other sources (e.g. through demand side management reimbursement);

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 747331

- Solutions where a third party takes on the complete renovation and only receives reimbursement from the added value that this renovation gives to the building when the building is sold.

The different financing options have been tested by different actors. This testing showed that the legal context for financing investments in social housing is so stringent that several of the proposed solutions are not possible. Funding must go through The Flemish Company for Social Housing (VMSW) or through governments if they can offer the same financial conditions. Sale of buildings is only possible if the buildings are in poor condition, and therefore cannot be done for recently renovated buildings. Third party financing with an earnings model via demand side management could offer a solution, but has not yet developed sufficiently. This track will, however, be further followed within FALCO.

Due to the difficult legal context, the FALCO Partner Board decided not to continue this breakthrough project for the time being.

In the meantime, the implementation decree on the financing of solar panels in the social housing sector has been approved. This allows social housing companies to invest in solar panels and to earn back their investment through a contribution from the social tenant. Applying the same thinking to energy renovation could stimulate the renovation of social housing.

2.5 Overarching solutions – the Membership Card System: a platform for kick-starting and sustaining a positive investment dynamic

May 6, 2019

The financing solutions developed within FALCO (hereafter referred to as FALCO solutions) will expand the energy renovation market, thereby allowing the renovation & retrofitting sector (incl. its suppliers) to enjoy additional revenues. The Membership Card System (MCS) is being set up to capture part of the economic value accruing to the renovation sector, and to use it to further increase the pace and ambition in energy renovation investments. These new investments will in turn generate additional revenues, that through the MCS will be put to use to further accelerate renovation.

The generic features of the MCS are as follows:

- **The MCS is an open and voluntary system –** Anyrelevant equipment supplier can join the MCS and become a “partner-supplier”, although this is not mandatory. Those people or organisations undertaking an energy renovation that use one of the FALCO solutions are *incentivised* to work with partner-suppliers but are under no obligation to work with these suppliers.
- **Result-based contributions from partner-suppliers –** Partner-suppliers commit to offer to contribute to the MCS whenever those undertaking renovation works purchase goods or services from them that use one of the FALCO solutions. Hence, partner-suppliers only contribute to the MCS (e.g. in the form of a rebate) *if and when* they can issue an invoice: no contribution is required without the certainty of securing additional business.
- **Contributions used to further develop the energy renovation market:** The partner supplier contributions to the MCS are used to further speed up the pace and ambition in energy renovation investments in the Flemish region. We have designed a lean process that allows a very transparent and hassle-free payment of contributions by partner-suppliers.

This project has received funding from the European Union’s Horizon 2020 research and innovation programme under grant agreement No 747331

- **Modular design** – The idea of the MCS originated while developing the ER 2.0 solution. Nevertheless, using a modular approach, the MCS can accommodate the needs of other (FALCO) financing solutions, bringing about additional investments. Such an expansion would further increase the bargaining power of the MCS (which could secure fair contributions from suppliers), and improve cost efficiency of the system (spreading fixed cost over a larger number of transactions).

After having passed initial testing, the MCS is currently undergoing a more extensive in-depth **market validation**.

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 747331

3 More information

Website: https://www.financinglocalclimateplans.eu/

For additional information please contact the Project Coordinator at the TRACTEBEL: FALCO@tractebel.engie.com.

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 747331