



Sustainable energy investment in European local authorities

Report based on a survey by the Covenant of Mayors Office

Covenant of Mayors Office, May 2016



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1. Summary

The Covenant of Mayors Office (CoMO) conducted an online investment survey aimed to Covenant signatories and Coordinators in winter 2016. The survey focused on plans and barriers in accessing financing, and future investment projects.

Survey respondents

About **9% of all Covenant of Mayors signatories** (555 local authorities) participated in the survey. Their geographic distribution was similar to the geographic distribution of signatories in the initiative: ca. 60% of the respondents come from Italy, and over 20% from Spain.

Perceived barriers

Finding financing and capacity for project development, matching the election cycle and the investment cycle are considered difficult by the contributing local authorities. This emphasizes the relevance of the EU facilities (PDA, ELENA)¹ supporting project development. As 85% of the respondents were Italian or Spanish and about 75% of individual signatory cities in Italy and Spain have less than 10,000 inhabitants², the importance of larger (local or regional) authorities in assisting them is clear. There are many examples of regional projects supported by the MLEI, PDA and ELENA facilities.

Interest in financial instruments, innovative, commercial financing solutions

37% of the respondents declared they were ready to consider innovative (commercial) financing methods, and 11% have significant experience in some of them. Among these solutions, third party financing/EPC/ESCO and utility financing are most used. There are three thematic fields in which more than 10% of respondents are developing projects: public lighting, energy efficiency in municipal buildings and renewable energy in municipal buildings. In this report, only those projects are analysed, where not only financing through grants is considered. Respondents indicated that they are ready to consider non-grant finance in about half of the investment projects they plan. As our focus (in line with the EU goals), is on the potential uptake of financial instruments, private financing, the analysis focuses on projects which may consider these.

Projects over EUR 1 million represent 30% of all projects and over 80% of the total amount reported to be planned for investments. Projects over EUR 5 million represent 9% of all reported projects and over 40% of the total estimated amount

Opportunities of commercial financing for large-scale³ projects are usually to be found in cities with more than 75,000 inhabitants. About 80% of large-scale projects are planned by local and regional authorities with more than 75,000 inhabitants. The latter also represent a significant part of projects budgeted in the EUR 2-5 million range.

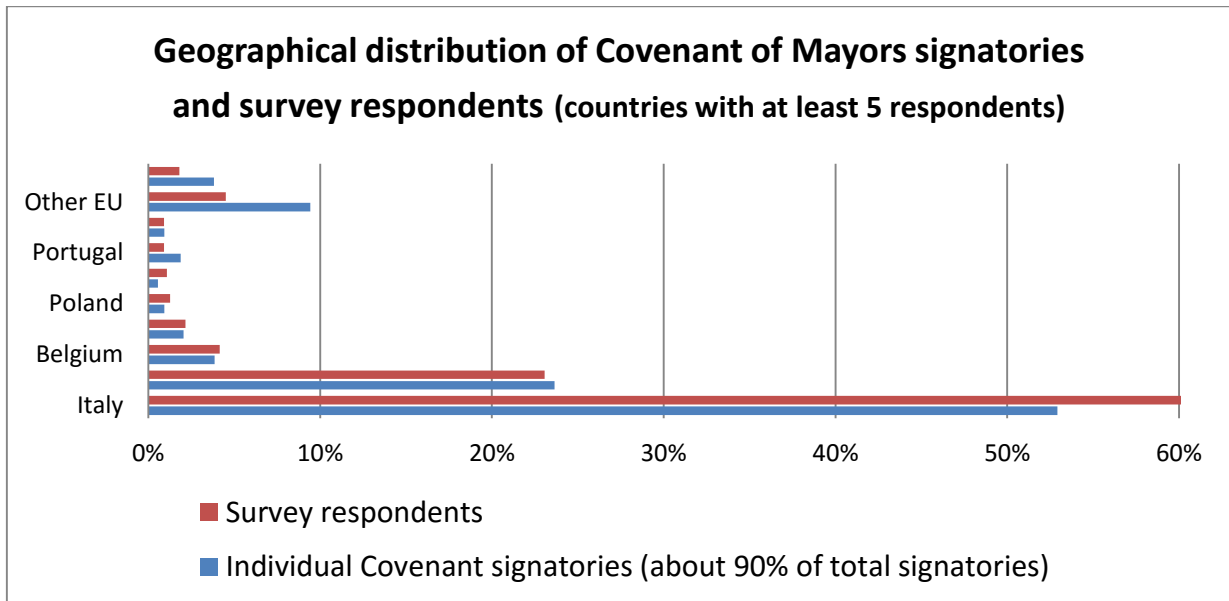
Public lighting is the most popular investment field. Almost one-third of the respondents expressed their intention of developing public lighting projects. Together with energy efficiency and renewable energy investments in municipal buildings, it represents about 63% of the investment plans reported by the participants in the survey.

¹ Information on these is available at: http://www.covenantofmayors.eu/IMG/pdf/Quick_Reference_Guide_-_Financing_Opportunities_2016.pdf

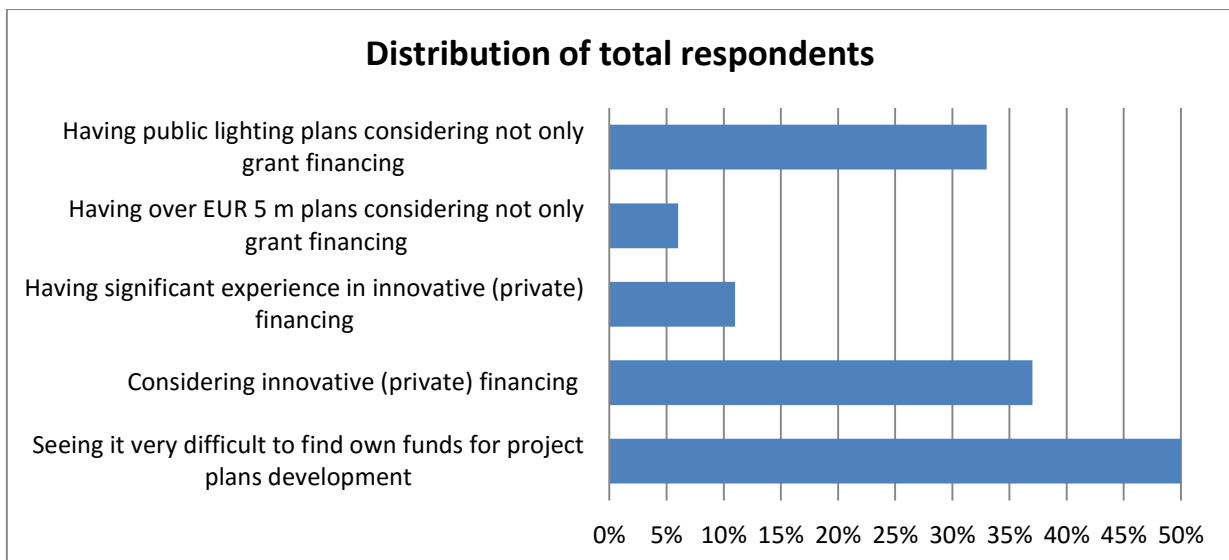
² Italian and Spanish individual signatories with <10,000 inhabitants represent about 60% of total individual EU signatories. A large part of them are supported by 25 Spanish and 98 Italian Covenant Coordinators.

³ Projects that have an individual value over EUR 5 million are considered 'large-scale'.

2. Respondents, perceived barriers, innovative financing experience and ambitions



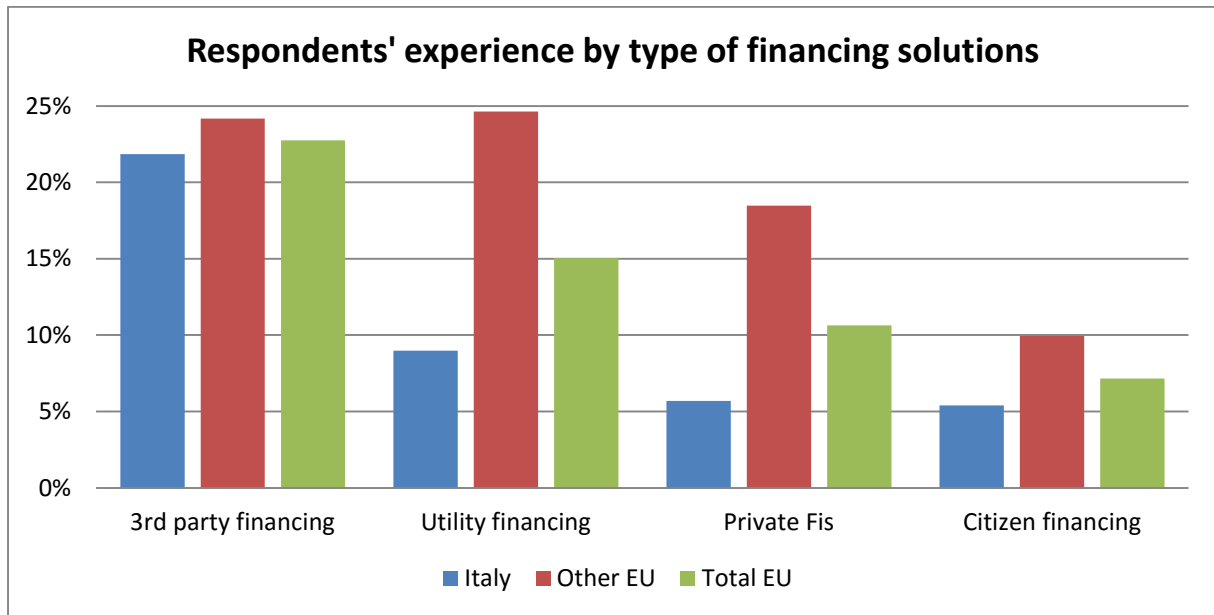
The survey received 555 responses, which represents about 9% of the total number of Covenant signatories. In correlation with the geographical distribution of signatories, 85% of the EU respondents come from Italy and Spain. (Beyond individual signatories, joint signatories represent about 10% of total signatories, they are mostly from Italy.) The 5 countries with the highest number of respondents to the survey represented 90% of the total number of respondents.



37% of respondents plan to consider some innovative financing methods⁴. **11%** have significant experience in some of them⁵.

⁴Feedback provided on various innovative financing methods like: Citizen finance (crowdfunding and energy cooperatives), third party financing (TPF/EPC/ESCO), utility financing, financing by privately owned financial institutions via various lending instruments, like loans or bonds.

⁵Benchmarks of Excellence on the website of the Covenant of Mayors show good practices of signatories.



Third party financing and utility financing are most often used. There are significant differences in using certain types of commercial financing, with utility financing (and private financial institutions) being much less common in Italy than in other parts of Europe⁶. Citizen financing is clearly gaining weight.

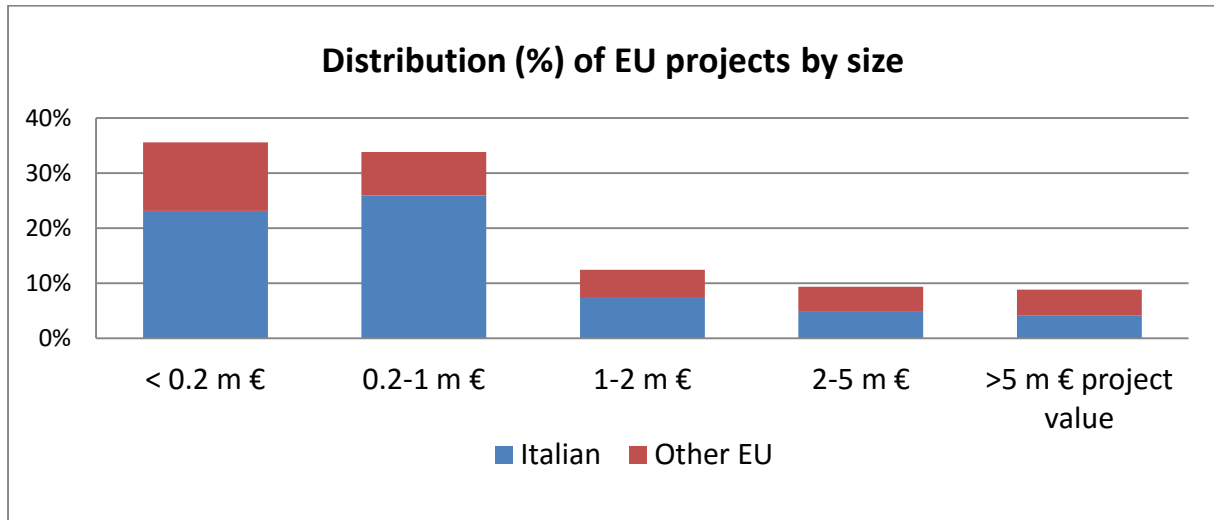
Main barriers to project development reported by respondents:

Funding project preparation	Regulatory & political environment	Capacity, collaboration
<ul style="list-style-type: none"> • Grants for project preparation • Finding own funds for project preparation 	<ul style="list-style-type: none"> • Legal ability to raise debt • Match political term with investment cycle 	<ul style="list-style-type: none"> • Find capacity to develop projects • Collaborate and achieve scale in energy efficiency projects by 'bundling' them

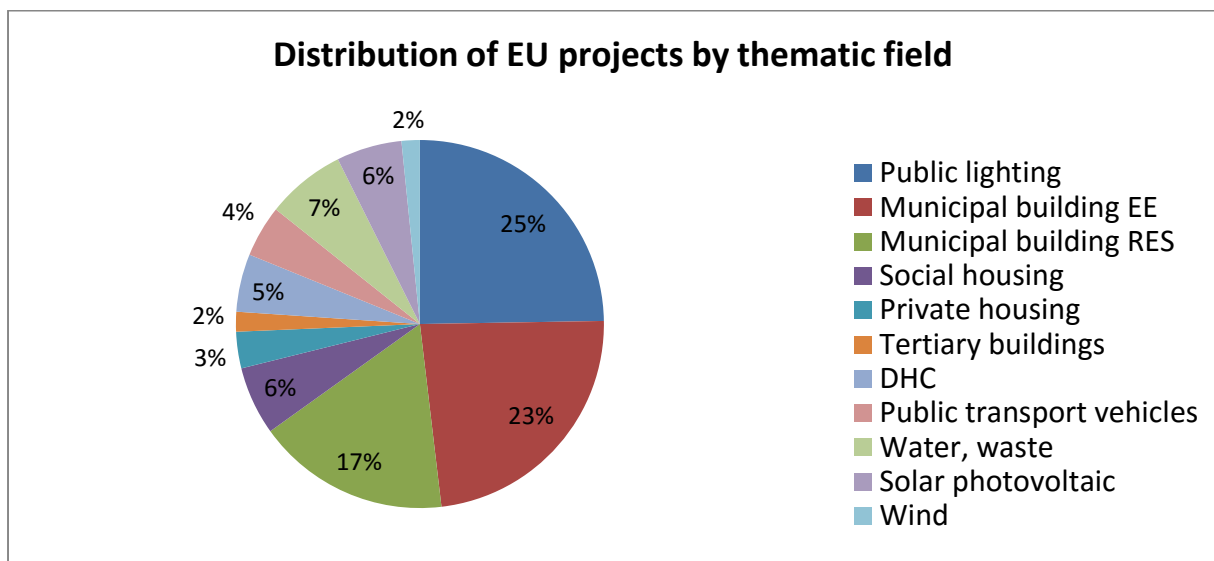
According to this survey, project development is mainly hindered by the lack of funds, the lack of capacity, and limitations from the regulatory and political environment.

⁶ There can be several reasons for the differences, for instance the different role of local utilities, the different regulatory, banking system, municipal system and macroeconomic situation (e.g. Stability Pact).

3. Investment plans – where not only grants are considered

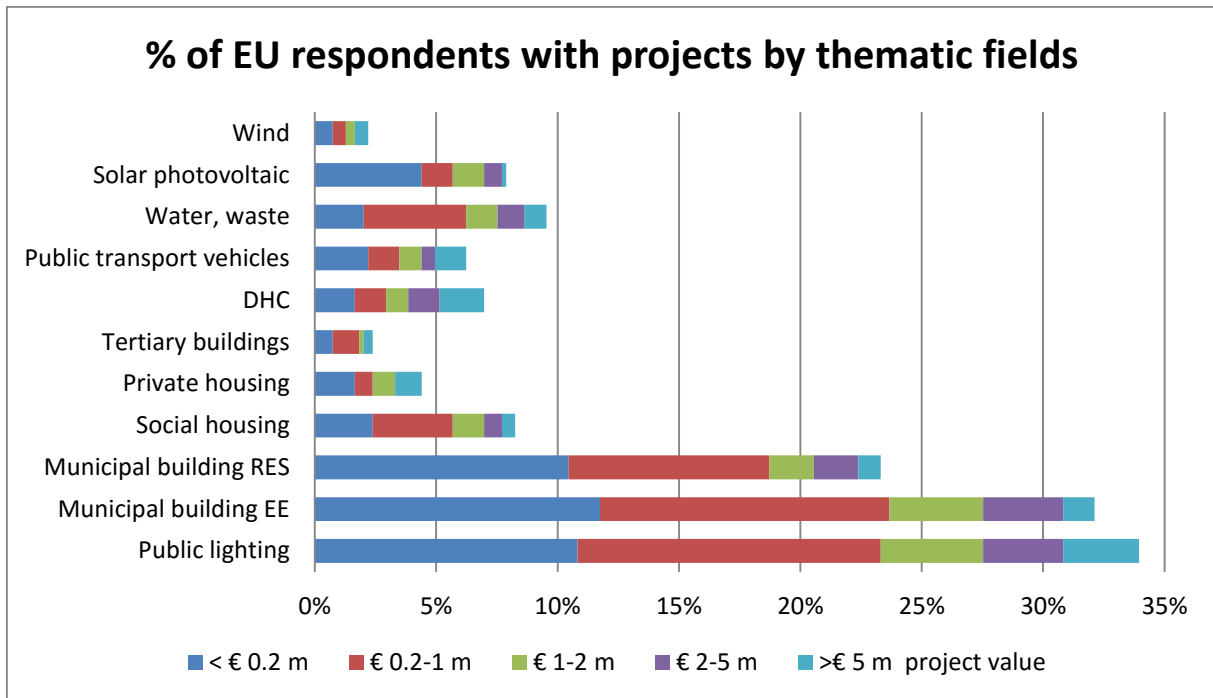


70% of the reported projects (see the thematic fields in the chart below) amount to less than EUR 1 million. 66% of all projects were reported by local authorities in Italy. When only considering projects over EUR 2 million, 50% of the projects have been reported by Italian cities.

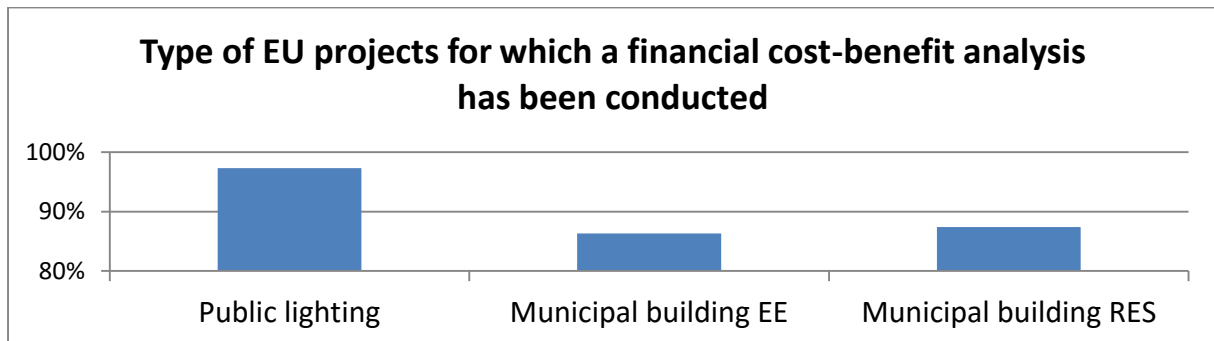


Public lighting is the most popular investment field, together with energy efficiency and renewable energy investment in municipal buildings: it represents 63% of investment plans. Municipal buildings and public lighting account for ca. 2.2% of a city's total CO₂ emissions (4% of final electricity, 2% of heat demand).⁷

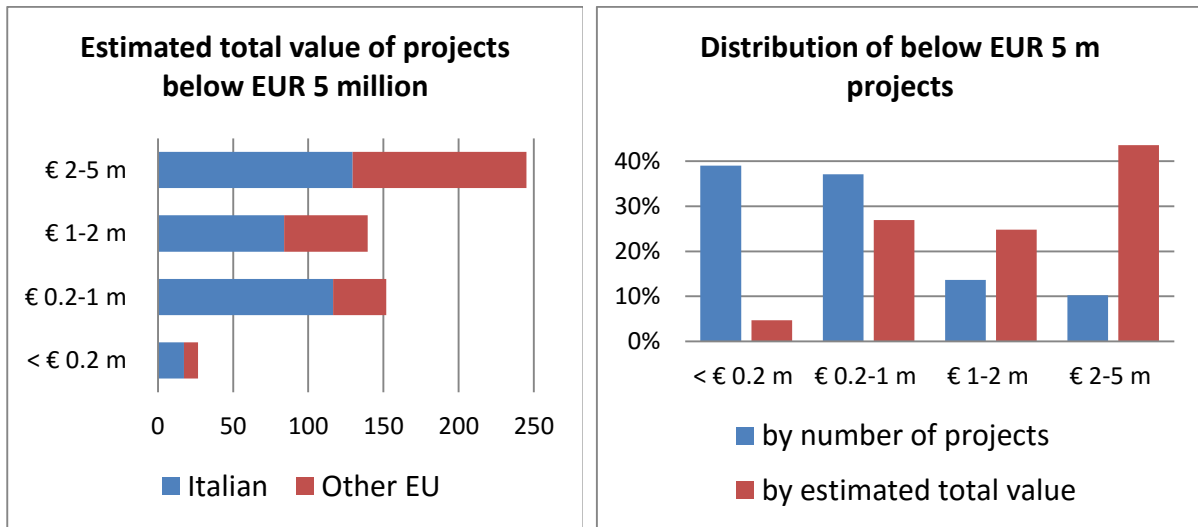
⁷Source: JRC 6th Assessment of the COM, 2015



There are three thematic fields in which more than 10% of respondents are planning to develop projects. (The participants often indicated projects in several fields.) About one-third of respondents are planning to develop projects in public lighting and less than 5% in private buildings (residential or tertiary).

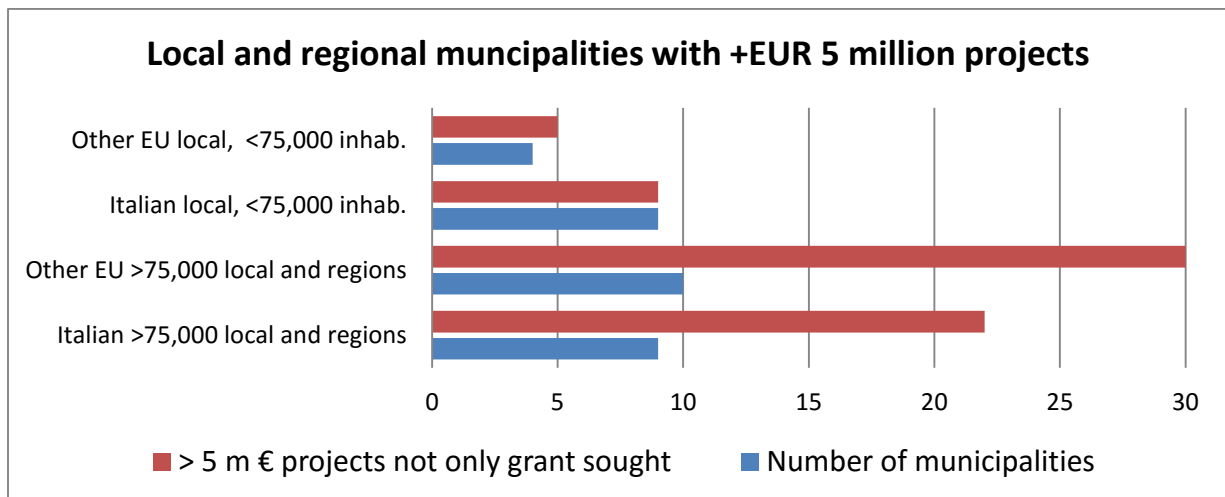


For almost all public lighting projects, the local authority has conducted a financial cost-benefit analysis. It is less the case for projects regarding municipal buildings.

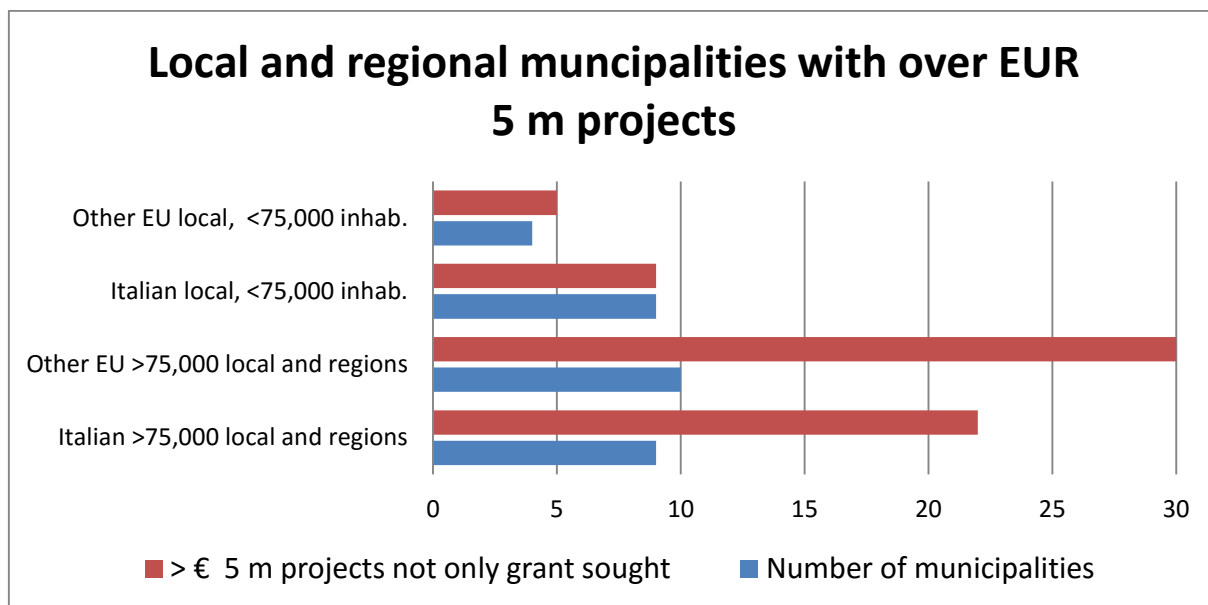


The estimated value of the projects reported by respondents was calculated by multiplying the number of projects in a given value range by the middle value of the given value range. It was not calculated for projects over EUR 5 million, as it was not possible this way. Given the lack of range definition, only its bottom value (EUR 5 million) is known. The total value of +EUR 5 million projects is over EUR 330 million.

The total estimated value of <EUR 5 million projects indicated in the above thematic fields is about EUR 560 million. The estimated value of projects from Italian cities covers 62% of this amount, showing a similar geographical concentration as in respondents and project numbers. While < EUR 1 million projects represent over 2/3 of the total volume, + EUR 1 million projects represent about 2/3 of the total estimated value of small and medium sized⁸ projects.



⁸ Projects with an individual value of less than EUR 5 million are considered 'small and medium sized'.



There are over 60 project plans above EUR 5 million of individual value, in the thematic fields shown in the graphs above (analysing projects by thematic fields), reported by about 30 respondents⁹. Ca. 80% of the total number of + EUR 5 million projects are to be developed by local authorities with over 75,000 inhabitants or regional authorities. This means that 6% of the EU respondents are actually planning to develop about 80% of the +EUR 5 million projects in these thematic fields. These same respondents also represent about 20% of the EUR 2-5 million projects. Italy and the UK have the highest value of projects, these two countries representing 2/3 of large-scale projects indicated in the survey.

Cover picture: shutterstock.com - www.BillionPhotos.com

⁹Some of the respondents indicated several project plans.