



Environment & Energy Board

Date	21 December 2023
Report title	Local Net Zero Accelerator
Portfolio Lead	Environment, Energy & HS2 – Councillor John Cotton
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Recommendation(s) for action or decision:

The Environment and Energy Board is recommended to:

1. Endorse the decision to accept the Net Zero Accelerator Pilot funding offered by the Department for Energy Security & Net Zero (DESNZ).

1. Purpose

- 1.1 To inform the Board of the West Midlands Combined Authority's (WMCA's) decision to withdraw our Net Zero Neighbourhood Innovation project from the Innovate UK funding programme, in order to be awarded a larger sum of government funding for a Net Zero Accelerator pilot alongside Manchester through our Devolution Deal.

2. Background

- 2.1 To attract investment into place-based net-zero solutions in the West Midlands, Energy Capital submitted a funding application for £4.86m of Innovate UK funding to develop a blended regional fund to address the funding gap for retrofit and wider net zero projects. This application was supported by our Net Zero Neighbourhood Demonstrator programme which we planned to use to prove our blended finance model.
- 2.2 Our funding application was successful, however, at the same time we have been lobbying government to seed fund this work on the back of our Deeper Devolution Deal commitments and recognise our leading role as a pathfinder based on the expertise we have gained over two very successful innovation projects in this field. Our lobbying was also successful and we were chosen alongside Manchester to receive our share of £12m to attract private sector investment to support the region's net zero transition.

- 2.3 Because both funds were provided by DESNZ, we were told that government would not allow us to receive both sets of funding. Therefore, we were asked to withdraw from the Innovate UK competition to allow other areas to benefit from the funds they had available. This withdrawal took place on the 29 November and on the 30 November the following [press notice](#) was released by DESNZ.
- 2.4 The WMCA will receive £6.2m for what is being termed a Net Zero Accelerator Pilot. This is expected to be revenue funding, most likely delivered via section 31 for: staff; external advice; programme development including at risk funding; and delivery model design and validation.
- 2.5 The objective set by government is to design a net zero accelerator model which covers energy, transport and building decarbonisation as a minimum and design investment model(s) to attract private investment. This model should be scalable, replicable and lead to contracted or secured investment partners capable of delivering at scale by c. March 2026. Delivery of net zero solutions must commence shortly after, if not before. Greater Manchester is expected to receive a similar amount to us and a smaller amount will be given to York and North Yorkshire Combined Authority, with the aim of replicating the Bristol City LEAP model.
- 2.6 The outcomes and approach sought by government are entirely aligned with our innovation work to date and we believe government has chosen to fund our regional pilot in favour of a national programme, due to this alignment and our approach that focuses on how to get the best outcome for the place and its citizens.
- 2.7 Green Finance support will also be provided to us separately by government as part of this pilot process with the aim to get our pilot up and running and also design a national process to help other areas follow in our wake.

3. Governance

- 3.1 The Governance for this project will be through a regional project board with DESNZ representation, feeding into a national programme board with the other projects. Funding will come to us as revenue and decisions around how this is spent will be agreed through the board process.
- 3.2 The recently reformed Energy Capital Board, which Councillor Cotton is a member of, will provide oversight to guide this programme through the normal Energy Capital governance process and progress updates will be brought back to the Environment & Energy Board on a regular basis.

4. Funding outcomes

- 4.1 The funding offered is to develop an innovative Regional Fund that brings together three sources of capital to deliver place-based initiatives:
- i. Grant (aggregated or devolved government grants)
 - ii. Repayment (commercial investment) and,

iii. 'Outcome-based' capital (from parties looking for specific non-financial outcomes).

4.2 Demonstration of what is needed to enable this blended funding model to work will be undertaken through some of the Net Zero Neighbourhood Demonstrator projects and the greater sum of funding may also allow us to explore the role of residential heat networks or other large scale energy infrastructure in the delivery of place-based schemes.

Figure 1. Blended Finance Based Regional Fund

Funding stream	Outcome	NZN Demonstration to enable scale up
Government grant	Fuel poverty reduction through the retrofit of homes.	Demonstrate that a neighbourhood approach increases take up and customer satisfaction.
Private grant	Specific outcomes including carbon reductions, health outcomes and network reinforcement avoidance.	Demonstrate outcomes can be baselined, measured, and achieved in appropriate neighbourhoods where these can be realised.
Return seeking finance	Commercially viable infrastructure investments.	Demonstrate commercially led infrastructure schemes can be delivered in a way that delivers desired public sector outcomes over time.

4.3 Our aim will be to take forward the majority of the commitments we made to partners involved in the now withdrawn Innovate UK application (Project CAMPOS), including the local authority partners who submitted Net Zero Neighbourhood business plans which would help to demonstrate the approach we are advocating. With the changes to the funding stream however, some additional processes, including the procurement of partners may need to be undertaken to be compliant with the new funding requirements.

5. Financial Implications

5.1 WMCA have secured c.£6.2million of revenue funding for this Net Zero Accelerator Pilot from government. This is the largest injection of external revenue funding that the WMCA has received for place-based net zero initiatives.

5.2 The terms and conditions associated with this grant funding are not yet known, nor how the grant will be disbursed i.e. whether the grant is received upfront (section 31) or whether it needs to be claimed in arrears (section 98).

5.3 A detailed business case will need to be developed and approved through the Single Assurance Framework before the programme can officially commence. The business case is expected to go to Investment Panel on 26 February 2024 for a board decision on 18 March 2024.

5.4 WMCA is awaiting guidance from DENZ as to whether a separate business case will need to be developed for their internal governance.

6. Legal Implications

6.1 This programme will add a significant extra burden to the legal team. We expect funding to be administered through a grant agreement and defrayed according to expenditure incurred and deliverables achieved. The Energy Capital team will work with WMCA Legal team to draft the relevant grant agreements.

7. Equalities Implications

7.1 Effective carbon reduction actions have the potential to make a significant positive impact on the health and wellbeing of the residents of the Net Zero neighbourhoods and contribute to reducing inequalities across the region. Furthermore, we will look to include specific consideration of climate adaptation into the design of the mechanism(s) which will further look to improve the resilience of the communities. The ultimate goal of the development of a West Midlands Fund for investment into net zero transition will allow us to help bridge the gap between the affluent who can afford to transition and the underserved population that are willing and would benefit from net zero investment but for whom the capital expenditure is currently too large a barrier.

8. Inclusive Growth Implications

8.1 We have worked closely with the Inclusive Growth team to develop a range of resources for local authority's developing Net Zero Neighbourhoods, including a citizen engagement charter, and detailed monitoring and evaluation framework, with metrics and indicators mapped to the Inclusive Growth fundamentals.

9. Geographical Area of Report's Implications

9.1 The area covered by the Regional Fund will be the WMCA geography. Investment will be made into local areas within this geography.

10. Other Implications

10.1 None