

## Investment Board

<b>Date</b>	18th March 2024
<b>Report title</b>	Local Net Zero Accelerator Programme – Programme Business Case
<b>Portfolio Lead</b>	Cllr. Cotton, Lead for Environment, Energy & HS2
<b>Accountable Chief Executive</b>	Laura Shoaf, Chief Executive
<b>Accountable Employee</b>	Cheryl Hiles, Director Energy Capital Ed Cox, SENZ Director

### Recommendation(s) for action or decision:\*

#### The Investment Board is recommended to:

- (1) Subject to business case approval by DESNZ, agree to receive at minimum £6.2m revenue grant funding from the Department of Energy Security and Net Zero to deliver the Local Net Zero Accelerator Programme.
- (2) Agree to the WMCA entering into contracts, and to agree onward award funding in order to deliver the Local Net Zero Accelerator programme.
- (3) Agree to delegate responsibility for receiving and allocating additional funding for the Local Net Zero Accelerator programme, up to £20m to the Executive Director of SENZ in consultation with the S.151 Officer.

### 1. Purpose\*

The LNZA Programme aims to address one of the key barriers to delivering place-based Net Zero projects at scale, that include retrofit, which is the gap between funding need and availability. It will create a blended regional fund, combining outcome-seeking finance alongside grant funding and private debt to finance whole place solutions and create scalable investment opportunities.

A blended approach to funding place-based net zero projects is required because grant funding is insufficient to meet the costs associated with meeting our Net Zero targets, so other sources of finance are needed. These include return-seeking finance, i.e. where the energy cost savings from the project cover some or all of the capital cost, and outcome seeking finance, where investors are prepared to fund a project based on non-financial or additional outcomes resulting from the project, for example carbon credits, healthcare savings and avoided infrastructure investment costs.

Development of Net Zero Neighbourhood projects through LNZA, with a strong focus on data collection and business case development, will generate the evidence base needed to mobilise outcomes-seeking funding, and produce a pipeline of investable projects.

## **2. Background\***

The WMCA has committed the region to achieving Net Zero by 2041. This requires investment into a wide range of infrastructure from homes and businesses to transport systems and energy networks. Included within the action plan to deliver the 2041 goal is an ambitious plan to retrofit the region's 1.2m homes while furthering the principles of inclusive economic growth - to achieve both Net Zero goals, but also transform residents' life opportunities by tackling the cost-of-living crisis, alleviating fuel poverty, improving health and creating quality jobs.

We believe a place-based approach to achieving Net Zero is the best way to meet this target. We estimate that £30-72bn investment is needed just to decarbonise the region's homes, let alone businesses and wider infrastructure. Public funding will not be sufficient for these changes, so consumer 'pull' and significant private finance will also be required. To make these investments attractive to investors, attractive to citizens and achieve our aim of inclusive growth, we need a finance model that empowers our citizens and to enable place-based solutions.

The WMCA has agreed a Trailblazer Devolution Deal with UK Government which will allow for more regional control of Net Zero grant funding, starting with a devolved retrofit pilot, which increase our ability to leverage private finance. This project will seek to establish how funding, including devolved funding from Government, can be blended with private and outcomes-seeking finance to achieve Government's objectives, removing market barriers to place-based Net Zero investment and attracting private investment to ensure that the impact of devolved public funding is maximised.

The outputs from this project will be replicable across other areas as devolution is rolled out. Addressing these barriers and blending finance solutions will make financing for Net Zero projects more attractive to funders and maximize the leverage of future devolved funding through the Single Funding Settlement to deliver Net Zero at pace and scale.

The core aim of this programme is to develop a scalable, replicable, and financeable model for accelerating progress to a just Net Zero energy transition. To achieve the conditions of the funding award, we will design and build a regional Net Zero Fund, taking capital from grant funding, return seeking finance and outcomes funding, amalgamating into one funding pot and distributing equitably to enable place-based Net Zero projects. This blended finance model will help address one of the key barriers to delivering Net Zero projects at scale – the funding gap.

This programme has been built off the back of significant research and evidence, both regionally and nationally. Funded by Innovate UK, the Energy Capital Partnership has progressed research and understanding through its recent place-based smart local energy system (Zero Carbon Rugeley) and Net Zero Living (CAMPOS) projects. In the Innovate UK funded Project CAMPOS Phase 1 report, the potential for 'outcomes funding' was explored to bring new finance into place-based decarbonisation projects as part of a blended finance model - focusing on carbon, energy systems resilience and health outcomes. The results highlighted varying degrees of market readiness to fund these outcomes, and the need to overcome three key barriers.

The primary barriers that must be removed to persuade outcome investors to engage with place-based projects such as WMCA's Net Zero Neighbourhoods (NZN) programme are:

- availability of reliable evidence of measurable outcomes;
- suitability of appropriate governance structures to reduce investment risk;
- and the means to consistently engage communities to develop pipelines of investable project opportunities.

This project will address these barriers by achieving the following objectives:

1. Data: Developing a robust data infrastructure solution with metrics and key indicators to measure outcomes, connecting neighbourhood data to project teams and the outcomes market.
2. Governance: Establishing a robust governance structure to manage a regional blended finance fund for Net Zero projects, balancing investor, place and community interests to ensure a just transition.
3. Participation: Building community trust in Net Zero projects and demonstrating resulting quality of life improvements to increase interest and demand.

To accelerate delivery, maximise learning and realise the benefits, we will work with five Net Zero Neighbourhood demonstration projects across the region, maximising the value and impact of the existing regional NZN programme. By the end of the project, we will have delivered tangible outputs against each of the three barriers:

1. Shared data-protocols and infrastructure:

- A tested, legally compliant and scalable data and monitoring infrastructure to capture, store and share data from NZN projects.
- A data framework aligned to the regional Inclusive Growth framework that supports the needs of funders, including approved methodologies for monitoring: carbon savings; energy demand reduction; physical and mental health improvement.

2. Effective governance and terms:

- A governance structure that integrates the different forms of capital and ensures fair and transparent stakeholder participation, providing assurance to buyers and communities, with transparent decision-making and monitoring.
- Terms that set out the relationships and risks held by the various parties and ensure compliance with relevant legislative frameworks.

3. Supporting community participation:

- Building participation with residents and local authorities in five neighbourhoods.
- Installing monitoring equipment in hundreds of homes to gather evidence, demonstrate benefits of retrofit and provide data to inform the development of investment cases for each project
- Providing minor improvements to homes to build secure citizen engagement, build trust and deliver direct energy and carbon benefits.

We will deliver these outputs by utilising the WMCA's NZN demonstrator programme. This is a demonstrator in which participating local authorities adopt a place-based approach, undertake in-depth community engagement and co-design, to plan and deliver a range of Net Zero solutions. These include:

- warm, energy efficient homes with low carbon heating;
- low carbon mobility and active travel interventions; and
- neighbourhood regeneration and green space improvements.

These solutions will help to improve community resilience, support inclusive growth and provide increased local economic and employment opportunities.

The NZN programme has been chosen as a demonstrator for this accelerator for multiple reasons:

- The WMCA have already invested time and effort to engage partners working in these areas, so the NZN working group, partner local authority officers, communities and crucial industry contacts are briefed on the current situation and are prepared to mobilise at pace to meet the project deadlines

- The WMCA have already provided £350k of funding to our LA partners to develop NZN plans, meaning a series of projects are well scoped and will be ready for delivery very shortly.

This will be a 2-year programme, commencing April 2024, with a proposed end date of March 2026.

### 3. Strategic Aims and Objectives

The programme objectives align with several of the WMCA's strategic aims and objectives, as set out in the table below:

<b>WMCA strategic objective</b>	<b>LNZA key objectives</b>
Reduce carbon emissions to net zero and enhance the environment	<ul style="list-style-type: none"> <li>- Develop a cohort of Net Zero Neighbourhood programmes across the region, securing resident buy in and undertaking preparatory work</li> <li>- Build regional capacity to develop net zero projects</li> <li>- Develop data infrastructure to support investment into net zero projects</li> </ul>
Ensure everyone has the opportunity to benefit	<ul style="list-style-type: none"> <li>- Design a suitable governance structure for the regional fund, ensuring needs of outcome buyers are met, while maintaining fairness and ownership of decisions and data with residents</li> <li>- Undertake community engagement activities in Net Zero Neighbourhood areas, to generate buy-in and begin the co-design process.</li> </ul>
Promote inclusive economic growth in every corner of the region	<ul style="list-style-type: none"> <li>- Develop investable business cases for our cohort of NZN's, to facilitate future investment into net zero projects at scale</li> </ul>

### 4. Financial Implications\*

The funding allocation for this programme has been announced by DESNZ, indicating that the region could have access to a minimum £6.2m of revenue grant funding, subject to approval from Investment Board.

However, we are yet to receive formal confirmation of these funds and the terms and conditions associated with them. The expectation is that the grant will need to be spent by 31<sup>st</sup> March 2026.

The payment details for the grant are also not known, so it is unclear if the grant will be allocated upfront via a Section 31 grant or will require to be claimed in arrears via a Section 98 grant. The latter will have some negative cashflow implications for WMCA.

The core aim of the programme is to design and build a scalable, replicable and financeable model for accelerating progress towards Net Zero energy transition. This regional Net Zero Fund would look to attract private investment and blend it with existing public sector funding, to fund place-based net zero projects.

By the end of the programme, WMCA expect to have developed a Net Zero Fund and a governance structure to manage that fund. It also expects to have developed a pipeline of investable propositions with a thorough understanding of risk and reward, which can then be funded through the Net Zero Fund.

It is not clear what the governance structure would look like (e.g. a separate entity, an ALMO, a joint venture, etc). Where any proposed governance arrangements arising from the review relate to specific decision-making powers (specifically around financial decisions), approval of the desired governance structure will be required through WMCA Board.

WMCA is not required to contribute any match funding although there will be in-kind support from existing officers to ensure the programme is successfully delivered. The minimum programme budget of £6.2m (shown below) is based on working on Net Zero Neighbourhood (NZN) demonstrator projects across up to six Local Authorities. The table below provides an indicative breakdown of costs across the five programme workstreams, with the provisional split between WMCA activity, LA grants and external procurement.

	<b>WMCA Internal Resources</b>	<b>WMCA External Resources</b>	<b>Local authorities</b>	<b>Total</b>
<b>WP1 - NZN development</b>	£ 272,415	£ 1,745,176	£ 1,311,262	£ 3,328,853
<b>WP2 - Data and monitoring</b>	£ 121,022	£ 695,250	£ -	£ 816,272
<b>WP3 - Governance &amp; Fund Development</b>	£ 110,985	£ 608,462	£ -	£ 719,447
<b>WP4 - Market mobilisation and investment</b>	£ 107,752	£ 375,958	£ -	£ 483,711
<b>WP5 - Project Management</b>	£ 623,309	£ 66,736	£ -	£ 690,045
<b>Contingency</b>	£ 161,672	£ -	£ -	£ 161,672
<b>Total</b>	<b>£ 1,397,156</b>	<b>£ 3,491,582</b>	<b>£ 1,311,262</b>	<b>£ 6,200,000</b>

As well as feasibility studies, development of the NZN projects (WP1) will include community engagement activity, retrofit assessment, installation of monitoring equipment and (subject to budget) installation of low-cost energy efficiency measures such as smart heating controls. The amount granted to each local authority on the procurement approach agreed – i.e. whether WMCA allocates grant funding to each local authority to procure delivery partners, or undertakes some procurement activity on behalf of LAs – but is likely to range from c. £262k-£500k revenue funding.

The table below provides a breakdown of the indicative budget for NZN demonstrators.

<b>Item</b>	<b>Indicative budget</b>
Local authority delivery managers	£ 538,762
LA support services	£ 257,500
NZN project development and implementation (split between LA and WMCA-led procurement)	£ 1,570,750
Techno-economic feasibility and investment case development	£ 689,426
WMCA internal resource	£ 272,415
<b>Total</b>	<b>£3,328,853</b>

Techno-economic feasibility spend in this work package relates to centrally procured services necessary to meet wider programme objectives, and support for each Local Authority in revisiting, and updating their Net Zero Neighbourhood plans. This includes feasibility studies for neighbourhood level transport interventions, public sector building decarbonisation, and low-carbon heating and energy infrastructure solutions. Specific support will be provided to each local authority to develop a detailed investment case for its Net Zero Neighbourhood plans to help secure further funding needed to fully deliver each plan.

## **5. Legal Implications\***

- 5.1 Legal notes the recommendations set out in 1-3 (above) in this report. At present it is unclear the basis or otherwise of the terms and conditions of the revenue grant funding that will be received from DESNZ. In line with the finance implication comments set out in section 4 immediately above, legal would need to have sight of that/those grant funding conditions in order to report back to the client team, as well as the executive director of SENZ and WMCA section 151 officer; in order to meet the requirements of recommendation 3 of this report.
- 5.2 It should also be noted that pertinent requirements of the DESNZ grant funding conditions will need to be captured (as necessary) in any agreements/contracts which are envisaged in line with section 10 (other implications) [see below] of this report. This will be required in order to meet the requirements of recommendation 2 of this report.
- 5.3 Legal will assist as necessary in order to facilitate actions arising in relation to the requirements of this report and referred to in sub-sections 5.1 and 5.2 above. Given this, legal would request that such information i.e. the DESNZ grant funding conditions and related information are provided as soon as reasonably possible given that the 2 year Local Net Zero Accelerator Programme ('Programme') (as set out in sub-section L (within section 2 – Background) (see above) states a commencement date of April 2024 for the Programme.

## **6. Single Assurance Framework Implications**

- a) The WMCA will be accountable for at minimum, £6.2m of funding from DESNZ to deliver the Local Net Zero Accelerator. Exact terms and conditions for the funding are yet to be confirmed, as the DESNZ programme board has not yet been established, and the grant agreement had not been issued at the time of writing.

- b) The guidance we have received from DESNZ to date, which has informed the rescope of this programme is as follows:

*"I am writing to confirm the partnership between DESNZ and WMCA to develop a Local Net Zero Accelerator pilot. As we've discussed, the pilot will run as part of the WMCA devolution deal to work together on net zero and will seek to develop a place-based net zero investment strategy and test this with the investment market. We want the pilot to test the approach of developing an aggregated bundle of projects across multiple net zero sectors, including not only projects that can readily provide a financial return for commercial investors but also projects which would be difficult or impossible to finance commercially on their own, but for which it may be possible to attract commercial investment as part of an investment bundle. The pilot will run until Mar 2026.*

*The funding available to WMCA will be £6.2m subject to an agreed business case (including outcomes, outputs and a delivery plan). This funding is revenue funding and can include spending on staff, expertise and project development funding. The pilot approach will need to include energy, transport and buildings, but there is flexibility on the precise nature of the pilot to enable WMCA to take account of your local needs, circumstances and opportunities."*

- c) The programme business case for the LNZA has been shared has been shared with DESNZ alongside our internal submission, and has since been used to support the sign off the programme internally at DESNZ. As such, the programme team are highly confident the scope of this programme meets the requirements as outlined by DESNZ.

## **7. Equalities Implications**

The West Midlands is a diverse region, with significant inequalities and the largest fuel poverty gap of any English region; equality issues are therefore a key concern. There is a danger that policy focusing on decarbonisation could leave marginalised groups behind and exacerbate inequalities. The WMCA is therefore committed to embed a 'Just Transition' at the heart of its strategy to achieve Net Zero by 2041 which means developing projects that reflects citizens needs is essential.

This programme is designed to prioritise the needs of communities as a collective rather than individuals. This is highlighted by the fact that the demonstrator cohort contains a representation of different communities across the West Midlands with different housing typologies, tenure types, combinations of demographics and ethnic backgrounds, geographical characteristics and income band. The programme will use learnings from delivery of these representative demonstrator Net Zero Neighbourhoods to provide solutions that can be applied universally across the region.

To date, the team has practised an approach of working transparently, and sharing learnings openly within the West Midlands and nationally. The programme team actively seeks opportunities to balance representation within the team and ensure all team members are valued and their opinions integrated into project design, providing a range of perspective and lenses through which to consider the outputs of their work.

The WMCA as the accountable body on the programme will mandates that any procured delivery partner on the programme has appropriate EDI policies and action plans that guide their work.



## 8. Inclusive Growth Implications

The WMCA's Inclusive Growth team worked with each of the local authorities to encourage integration of the WMCA's inclusive growth framework in their Net Zero Neighbourhood plans.

A detailed monitoring and evaluation framework has been developed for the Brockmoor Net Zero Neighbourhood in Dudley, based off the Inclusive Growth fundamentals, and this will also be applied to LNZA. For each fundamental, appropriate indicators have been identified, and activities pursued that seek to make improvements against these. This approach to monitoring and evaluation has been shared with the wider cohort of local authorities, and they have committed to monitoring their projects using the same approach.

To mobilise the outcomes buying market we need to monitor and report on the co-benefits derived from Net Zero projects, for example the health impacts of delivering retrofit.

The project team have collaborated with the Inclusive Growth Business Partner Network, and Communities Team to develop a community engagement charter, for use in Work stream 1 of the LNZA.

Funding a 'just transition' is a key ethos of the programme team, and the governance structure around the regional fund will be designed to reflect this. For example, we will design-out the ability of investors to cherry pick projects, and design-in mechanisms for communities to be involved in decision making processes. This will be a requirement mandated in our procurement exercise.

<b>Inclusive Growth Fundamental</b>	<b>Programme Activities</b>
Inclusive Economy	Building a regional fund that does not allow for cherry-picking by investors. Investors will not be able to select which projects they fund, meaning no areas are left behind
Power and participation	Community engagement is key to the Net Zero Neighbourhood approach, therefore each participating LA will be required to undertake community engagement activities to drive uptake and feed in to the NZN co-design process.
Affordable and safe spaces	Retrofit measures can help drive down fuel bills for residents, easing cost of living burdens.
Connected communities	Included within the NZN approach is specific funding and resource allocation to implement active travel interventions. Helping provide low carbon connectivity for participating neighbourhoods
Education and learning	No programme activities directly link into education outcomes, however there is potential for community engagement activities to feature educational activities around energy savings.
Health and wellbeing	Evidencing the link between net zero projects and health outcomes is a key objective of this programme. To do this, data collection techniques (monitoring equipment and surveys) will be used to measure the impact on

	health and wellbeing, before and after retrofit measures are installed in participants homes.
Equality	The 5 participating Net Zero neighbourhoods were chosen partly on an equality basis. All are above national average for levels of fuel poverty, and below average for indicators such as life expectancy and employment. In total ~£2m will be invested directly into these neighbourhoods through the programme.

## 9. Geographical Area of Report's Implications

This programme will see Net Zero Neighbourhood activity commencing in 5 neighbourhoods across the West Midlands, in Birmingham (Castle Vale), Wolverhampton (Graiseley), Sandwell (Park Lane Estate), Solihull (Chelmsley Wood) and Walsall (Dudley Fields) with potential to also include an additional neighbourhood in Coventry.

These neighbourhoods have been chosen for a range of different reasons, the rationale behind each LA choice is documented within the Net Zero Neighbourhood Plan documents. A summary of the main criteria considered is detailed below:

- Ranking of the area in the indices of multiple deprivation
- Experience of fuel poverty
- Need for community infrastructure development or presence of strong existing community infrastructure
- Suitability of area for other funding opportunities (i.e is this an area that has been left behind by other energy efficiency funding/Net Zero funding opportunities or can further benefit from additional funding)
- Potential for local renewable energy generation

Each local authority is a core member of the West Midlands Combined Authority and therefore committed to the #2041 climate change target and 5-year action plan, together with the application of the principles of the Inclusive Growth Framework. Each Local Authority declared climate emergencies between 2019 and 2020, and is committed to the WMCA 2041 climate emergency target and 5-year action plan.

## 10. Other Implications

The programme team will need to undertake a significant procurement exercise to onboard the necessary partners and subcontractors to complete this work. Soft market testing has begun to assess the capability of suppliers to meet our requirements, and prepare the market to respond to tenders. In addition, the programme team are preparing 'meet the buyer' webinars, supported by the procurement team to increase our outreach to a wider network of potential suppliers.

The Energy Capital team will need to undertake extensive recruitment activity to ensure that the programme is managed to time and budget, deliverables support programme outcomes and that the WMCA is able to build knowledge and capacity in this area. Job descriptions have been drafted for roles that will be funded through the programme and we are seeking to commence recruitment as soon as possible.

The development of a data infrastructure to gather and manage data arising from LNZA projects and other net zero projects across the region will require the guidance of WMCA's digital team. Engagement with the digital team and scoping of this element of the programme is already underway.

Following recommendations from Investment Panel, the project team have engaged with the WMCA's Risk Manager for input and guidance, ensuring risk management and reporting across the programme are consistent with WMCA policy and guidelines.

## **11. Schedule of Background Papers**

1. Net Zero Neighbourhoods Plans
  - Brockmoor NZN Plan
  - Castle Vale NZN Plan
  - Chelmsley Wood NZN Plan
  - Graiseley NZN Plan
  - Park Lane Estate NZN Plan
2. Zero Carbon Rugeley – Finance & Investment Report
3. Project CAMPOS Phase 1 report
4. Programme Business Case for Local Net Zero Accelerator
5. Programme Risk Register for Local Net Zero Accelerator