



<b>Report to:</b>	Climate, Energy and Environment Committee
<b>Date:</b>	25 March 2025
<b>Subject:</b>	<b>West Yorkshire Climate and Environment Fund</b>
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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If the report does contain exempt information, what is the reason for exemption: <i>(indicate in the adjacent box the relevant paragraph of Schedule 12A, Local Government Act 1972, Part 1 – see Access to Information Rules)</i>	

## 1. Purpose of this Report

- 1.1. To provide an overview of current activity to establish a West Yorkshire Climate Fund.

## 2. Recommendations

- 2.1. The Committee notes the report and provides initial thoughts on the objectives and outcomes of the Climate Fund.

## 3. Information

### Climate Ambitions

- 3.1. The Combined Authority has declared a climate emergency and set a challenging target to be net zero carbon by 2038. It has developed the evidence base to form an understanding of the pathway and interventions that will be required to meet the target.
- 3.2. The Combined Authority published its Climate and Environment Plan (CEP) 2021-2024 in 2021 responding to the evidence base and an indicative funding allocation of £40 million. Over the period of the CEP £217 million has been allocated to schemes identified in the CEP with a further £94 million leveraged from the private sector.

- 3.3. A new CEP has now been produced. It includes a refreshed evidence base and the agreement of a long-term framework for achieving the regional target. It is focussed on those areas in which the Combined Authority and local authorities have control and influence over.

### **Pipeline Development**

- 3.4. Meeting the regional net zero carbon target will require the development of a pipeline of net zero schemes. The evidence base underpinning the CEP provides an understanding of the scale of the interventions that will be required to meet the 2038 ambition. For example, it is estimated that over 800,000 domestic heat pumps will need to have been installed by 2038.
- 3.5. While the evidence base provides an understanding of the scale of interventions required it does not map these spatially across the region. To bridge this gap Local Area Energy Plans (LAEPs) are in production across West Yorkshire. They will provide a spatial representation of where energy schemes and infrastructure should be sited to allow the net zero carbon target to be achieved.
- 3.6. An output of the LAEPs will be a pipeline of net zero schemes many of which will be privately funded and delivered. Not all these schemes will be viable commercially however and therefore will need to seek lower cost financing to be delivered.
- 3.7. The development of a pipeline of net zero schemes is also important from the perspective of leveraging private investment. Discussions with investors has highlighted they are reluctant to provide funding for individual small-scale schemes, preferring to take a portfolio-based approach. Having a pipeline of schemes in West Yorkshire would increase the likelihood of investors financing net zero schemes in the region.

### **Financing Net Zero**

- 3.8. The evidence base provides an estimate of the Combined Authority and local authority cost of meeting the 2038 net zero target. It suggests that between £5 billion and £6.2 billion will be required up to 2038 to deliver activity which is within the control and influence of the Combined Authority and local authorities in West Yorkshire.
- 3.9. While the cost is significant, it does not represent the full cost of meeting the target across the region. The LAEPs when they conclude in summer 2025 will provide not just an understanding of the spatial representation of energy infrastructure required to meet the 2038 target in the region but also a high-level cost of doing so.
- 3.10. In the absence of information on the high-level cost at the time of writing a useful proxy to understand the likely costs can be derived from the Greater London Authority (GLA) and Greater Manchester where their LAEPs have concluded. The GLA have estimated that to meet their 2030 net zero target will cost £75 billion, while the total for Greater Manchester

to meet their 2038 target has been estimated at £64 billion. The expectation is that the costs for West Yorkshire will be of a similar magnitude.

- 3.11. The current fiscal climate for combined and local authorities is challenging and presents a barrier to the delivery of climate and environment schemes. It is likely that combined and local authorities especially in the short-term will not have the revenue or capital to progress a large portfolio of schemes, especially of the scale that is required to meet net zero carbon by 2038.
- 3.12. Set against this fiscal backdrop, the latest Public Sector Decarbonisation Scheme (PSDS) funding round has demonstrated that there is still appetite from the public sector to progress decarbonisation schemes across their estates. The latest funding round received 45 applications from across Yorkshire and the Humber with a combined value of just over £156 million. Combined across the five rounds of PSDS applications to the value of £763.8 million have been received by government from organisations in Yorkshire and Humber, of which £291.6 million has been funded. In West Yorkshire, while we do not have information on the value of applications that have been submitted, across the five rounds of PSDS funding has been granted to organisations in the region to the value of £126.5 million.
- 3.13. When it comes to financing net zero schemes there also needs to be consideration of risk and scale. Conversations with investors, such as the Association of British Insurers (ABI), have indicated when it comes to net zero and energy schemes, they are interested in schemes which are low risk. Investors' preference is to also engage with portfolios of schemes with significant value over individual projects. We understand in some cases this could be as high as £200 million.

### **Case Studies**

- 3.14. The Combined Authority is not unique in looking to establish a fund that supports the deployment of net zero schemes. Other areas across the country have or are establishing their own funds based on the outcomes they are looking to achieve.
- 3.15. The most well-established funds are those that have been developed and delivered by the Greater London Authority (GLA) and provide an indication of how a fund could be set up in West Yorkshire and the benefits that it could achieve.

#### *Mayors Energy Efficiency Fund*

- 3.16. The Mayors Energy Efficiency Fund (MEEF) was established by the GLA to support the delivery of transport, energy efficiency and renewable energy schemes.
- 3.17. MEEF is a £500 million loan and equity fund supported by £104 million of funding from the GLA and supported by the European Regional Development Fund (ERDF). It also

includes a finance facility from five commercial banks and is managed by an external investment manager.

- 3.18 It adopts a blended solution to the financing of schemes, blending low-rate finance with the higher rate finance that has been secured from the commercial banks to provide a lower than market rate of finance.
- 3.19 MEEF has proven to be more attractive from a private sector perspective than a public sector one due to the lower rate of finance that the public sector can access through the Public Works Loan Board (PWLB). That being said there is still an expectation from the GLA that MEEF will be fully committed by the time its investment period finishes in 2025.

#### *London Green Finance Fund*

- 3.20 The London Green Finance Fund (LGFF), again established by the GLA, is at present a £190 million loan fund established to provide low-cost finance to the public sector in London.
- 3.21 The LGFF is currently in phase 1 with the intention of raising the initial £190 million to £500 million via Green Bonds and the private markets in subsequent phases.
- 3.22 LGFF is funded via low-cost finance provided by the National Wealth Fund (formerly the UK Infrastructure Bank) at lower than PWLB rate. It is also supplemented by a small amount of grant and contingency funding from the GLA to cover their costs and to subsidise borrowing. This comes directly from the GLAs balance sheet.
- 3.23 In contrast to MEEF, LGFF is managed by an in-house team of nine comprising of finance, carbon and policy experts. Their role is to manage the fund, assess schemes for their carbon credentials and support the appraisal of schemes for funding. Not all roles work full-time on the LGFF.
- 3.24 At present only public sector organisations are considered appropriate applicants to the LGFF due to the requirement for organisations securing funding needed to have a similar credit character as the GLA. This limits the scope of applicants that can apply.

#### **Current Approach**

- 3.25 The overall aim of the Fund is to finance, either fully or partially, a broad portfolio of schemes that contribute to achieving the 2038 net zero carbon target and wider environmental ambitions.
- 3.26 At the outset a portfolio-based approach made up of schemes in different sectors, asset classes and technologies is preferred. This approach would allow the full suite of interventions required to meet the regional target to potentially be funded through the Fund. The design of the Fund will need to take this into consideration in its design and it

is likely that various funding sources will need to be leveraged to allow the suite of interventions to be funded.

- 3.27 The design of the Fund will also need to factor in how project development activity can be financed. This activity is required to derisk schemes and historically the lack of funding for project development has been a barrier to propositions gaining investment.
- 3.28 The Combined Authority's Net Zero Region Accelerator (NZRA) Programme has for some time provided project development support for net zero schemes. However, the amount of funding available is small, compared to the anticipated demand once the Local Area Energy Plans (LAEPs) for West Yorkshire have been completed. To address this robust governance and decision-making processes will be established to determine the schemes that project development activity takes place on, and more widely the schemes that receive support through the Fund.
- 3.29 If the Fund is to be successful further funding and resources will be required to undertake project development activities, otherwise there is a significant risk that the Fund once established will have a reduced number of schemes to finance.
- 3.30 In designing the Fund the following barriers will need to be addressed (some of which have been discussed in the narrative above):
- Lack of an investible pipeline of net zero schemes for which capital can be deployed.
  - Lack of capital available at an attractive rate to allow schemes to be viable.
  - No clear route to market for net zero schemes where they are not highly investible.
  - Lack of a strategic approach to addressing scheme level risks that would result in schemes being derisked and becoming investible.
  - Lack of scale in terms of total capital value of schemes that are attractive to investors.
  - Lack of understanding of where funding is best needed in terms of sectors, asset classes and technologies.
  - No clear governance and decision-making processes that would act to derisk schemes through the presentation of a collective West Yorkshire position.
  - Lack of clarity on the type of funding required and the organisations that could provide it.

- No identified Combined Authority funding currently allocated for the development and implementation of the Fund.

3.31 Reflecting on the above an initial set of objectives, outcomes and benefits have been established for the Fund. They are:

- **Objectives:**
  - To accelerate the pace and scale of climate and environment schemes in West Yorkshire.
  - To provide funding for climate and environment schemes in West Yorkshire across a variety of asset classes and sectors.
  - To leverage private sector funding for the delivery of climate and environment schemes in West Yorkshire.
  - To cross-subsidise commercially attractive climate and environment schemes with those that may not provide a commercial return.
  - To act as the aggregator for climate and environment schemes in West Yorkshire.
- **Outcomes and benefits:**
  - Increase in the funding available for the delivery of climate and environment schemes in West Yorkshire.
  - Increase in the number of climate and environment schemes that are delivered in West Yorkshire.
  - Reduction in emissions across all sectors of the West Yorkshire economy.
  - Increase in amount of low carbon energy generated.
  - Reduction in costs for consumers (both businesses and residents).

3.32 These initial objectives, outcomes and benefits will be tested and refined over the coming months with the help of the National Wealth Fund, with the intention to scale up activity to design the Fund in the second quarter of 2025. Further updates will be provided at future meetings of the Committee.

## 4. Risks and Mitigations

4.1 There are no risks directly arising from this report.

## **5. Tackling the Climate Emergency Implications**

- 5.1 The West Yorkshire Climate Fund will be a key mechanism to reduce emissions and deliver the Climate and Environment Plan across the region. Without the West Yorkshire Climate and Environment Fund the delivery of net zero schemes is likely to be more difficult due to a lack of low-cost finance.

## **6. Inclusive Growth Implications**

- 6.1 Underpinning the new Climate and Environment Plan is the mission to tackle the climate and environment emergency and becoming net zero carbon by 2038 in an equitable and inclusive way.
- 6.2. The West Yorkshire Climate Fund is a flagship action with the new Climate and Environment Plan and will therefore be aligned with its mission.
- 6.3. As with equalities and diversity, inclusivity will be designed into the West Yorkshire Climate Fund with schemes funded by it being required to demonstrate how they are considering inclusivity in their design, implementation and operation.

## **7. Equity and Diversity Implications**

- 7.1 The West Yorkshire Climate Fund will be designed in a way that any scheme that receives funding will need to demonstrate that it has considered equality and diversity issues.
- 7.2. As part of the development of the business case for the West Yorkshire Climate Fund an EQIA will be carried out. All schemes funded will also be required to carry out an EQIA.

## **8. Financial Implications**

- 8.1 At this stage of development the full financial implications of establishing and delivering the West Yorkshire Climate and Environment Plan are not known.
- 8.2. Similar schemes already in operation across the country have demonstrated public funding can act to leverage significant private sector funding. For example, the GLAs Mayors Energy Efficiency Fund expects to leverage between £3 and £5 of private sector investment for every £1 of public sector funding.

## **9. Legal Implications**

- 9.1 There are no legal, governance or compliance implications at this stage, however as activity progresses there will be a requirement to understand the issues relating to these areas.

## **10. External Consultees**

10.1 No external consultations have been undertaken in the preparation of this report.

## **11. Background Documents**

11.1 There are no background documents referenced in this report.

## **12. Appendices**

None