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ROUNDTABLE OVERVIEW MARCH 2022

## UK INFRASTRUCTURE BANK: A PLACE-BASED STRATEGY FOR SUCCESS

### Roundtable overview: built environment

Delivering net zero will only be possible with a sustained, multi-decade national retrofit drive to decarbonise homes and buildings. The National Infrastructure Commission and Climate Change Committee have identified domestic energy efficiency and low carbon heat as a national infrastructure priority. To date, mobilising capital has been one of the greatest challenges standing in the way of rapid progress. The UK Infrastructure Bank (the Bank) could be mission-critical – supporting local authorities, businesses and financial institutions to unlock healthier homes, lower energy bills, green jobs and significant carbon reductions.<sup>1</sup>

As the Bank develops its first Strategic Plan, it is engaging with stakeholders to help further its strategic development. It has produced a discussion paper: ***Potential Private Sector Opportunities In Priority Sectors*** and has been seeking feedback.

As part of this process, the Bank and E3G coordinated a roundtable to explore how the Bank can support the decarbonisation of the built environment. It was attended by over forty professionals representing finance, home retrofits, manufacturing, energy, local authorities, academia and think tanks. Participants encouraged the UKIB to prioritise decarbonising the built environment within the Strategic Plan, putting this into practice with the recommendations below.

#### **Place-based approaches can level-up communities and climate**

Place-based transitions encompass decarbonisation and adaptation at a local level and are about securing people-centred benefits – affordable healthy homes, workplaces and cities, vibrant and circular local economies – possible

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<sup>1</sup> [https://www.theeig.co.uk/media/1091/eeig\\_report\\_rebuilding\\_for\\_resilience\\_pages\\_01.pdf](https://www.theeig.co.uk/media/1091/eeig_report_rebuilding_for_resilience_pages_01.pdf)



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with distributed, ‘small’ infrastructures, such as energy efficiency, smart clean heating and cooling. This often involves multi-vector, multi-stakeholder approaches, bringing together different domains in an integrated, systemic way. For example, with building retrofits and heat electrification, this could include joined-up planning around energy networks, mobility, and resilience. Reducing energy demand in homes and increasing energy system flexibility could postpone the need for network reinforcement, lowering the costs passed on to consumers and enabling more efficient network investment to smooth the way to a net zero power system by 2035.

### **Coordination and capacity matter as much as capital**

Successful place-based approaches will require a high degree of coordination between public and private stakeholders. The Bank can support the connectivity needed to maximise investment outcomes, as part of the broader supportive architecture needed at a local and national level.

- **Capacity building at a local level:** One of the biggest barriers for local government is not capital but revenue funding. Significant capacity gaps exist, with some local authorities unable to spend £20m because they lack £40,000 to hire staff to deliver projects. The European Investment Bank’s European Local Energy Assistance (ELENA) previously offered this option in the UK, with revenue funding structures – enabling local actors to develop investable propositions across sectors and match that up with different funding stacks. There is currently a scattering of technically assistance available across the UK, which the UKIB could supercharge with support of Treasury, funnelling grant funding.
- **Connecting with private capital:** Many of the UK’s financial institutions are ready to invest in the decarbonisation of the built environment. UKIB’s intervention could leverage this capital, with potentially transformative effects. The Bank can play a role in bringing together sources of capital – rather than crowding out private finance – finding vehicles for private finance to co-invest, potentially as a component part of a more complex structure.
- **Coordination with other private stakeholders:** Working alongside energy networks, utilities and other infrastructure actors will be key to supporting place-based approaches. The UKIB could help local authorities align with the investment timelines of regulated companies to support district heating, EV charging and network upgrades.
- **Coordination and information-sharing between local actors:** Across the country, there are local authorities and regional actors seeking solutions to the same problems. Time and resources can be saved through avoiding

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“reinventing the wheel”. The Bank can offer a hub of information sharing to promote best practices and tried and tested investable propositions. This should be underpinned with thorough project evaluation so that other regions can learn lessons – for example, understanding how much energy is avoided by investing in an efficiency portfolio of homes.

### **From ‘proof of concept’ to mass-market**

Financing the net zero transition is complex and will involve innovation. Many investors do not fund projects at the proof-of-concept stage. The UKIB’s unique position means it can support demonstration projects at a smaller scale to prove innovative models of supplying and financing the decarbonisation of homes. This may mean concessional finance or taking on greater risk than traditional investors in early-stage propositions. There are projects and pilots the Bank could support including through social housing schemes, projects which aggregate demand for green home retrofit services, and business models which shift the long-term upfront costs of retrofit away from the homeowner. E3G has mapped out ‘shovel ready’ opportunities and potential pilots the Bank could support in a recent briefing.<sup>2</sup>

### **A joined-up approach with government can unlock new opportunities**

Close engagement with government departments, particularly Treasury, will be key for fulfilling the Bank’s transformative potential – considering how the Bank can leverage available public funding and grants. There are good lessons from the KfW loans which have created a mass-market in Germany: triggering investments of over EUR 260bn and securing an average of 320,000 jobs per year, reducing emissions by 9 million tonnes per year. Money is provided to households via intermediary financial partners. Subsidies are offered for achieving deep retrofits through whole-house improvements. For individual retrofit measures, grant contribution is quite modest. This spurs environmental additionality and economic activity. The KfW’s focus on home retrofits was catalysed by the 1970s oil crisis and spike in fuel prices, putting a focus and policy changes into reducing the energy demand for space heating. A similar approach is warranted by today’s energy crisis. Low interest loans for retrofit are offered across Europe, including in Scotland and Ireland.

Another area for coordination with government is projects which offer great value in terms of social, environmental and macroeconomic benefits, but may

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<sup>2</sup> <https://www.e3g.org/publications/making-markets-through-the-uk-infrastructure-bank/>



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have long pay-back times. Even with a 30–40-year investment horizon for cash-based returns from domestic retrofit projects, the capital cost per resident is high. Government departments and agencies (i.e. the Environment Agency) could co-invest in projects not seeking a return but seeking outcomes: scaling up investments and allowing other finance to come in as part of a blended stack. Return-seeking finance can be mixed with blended outcome-based evaluation: there is a huge economic return from place-based transitions – including tax, healthcare, water management biodiversity, as well as climate change mitigation.

If you have any questions, please contact [Juliet.Phillips@e3g.org](mailto:Juliet.Phillips@e3g.org)

## About E3G

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

More information is available at [www.e3g.org](http://www.e3g.org)

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