

# Insight Briefing:

## UKIB Local Authority Lending and Advisory Service



UK:  
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# 1. Introduction:

**UK100 has been working in partnership with organisations including E3G, the Energy Systems Catapult (ESC), Pollination Group and the UK Cities Climate Investment Commission (CCIC), to develop recommendations for the UK Infrastructure Bank's (UKIB) local authority (LA) lending capacity and advisory service to accelerate the rate of local place-based Net Zero investment by UK LAs.**

We have worked closely with UK LAs over the last few years to understand their ambitions for accelerating Net Zero investment and the barriers they face in achieving them.

We believe that the UKIB has a key role to play in helping to address the capacity building and funding constraints faced by LAs. Its advisory service must work closely with its LA lending capacity to help LAs develop large scale investment programmes that can attract private capital to deliver the pace of investment that is needed to deliver the UK's Net Zero objectives.

**Our key recommendations are that the UKIB should:**

- Work with the Department for Business, Energy and Industrial Strategy (BEIS) and the Net Zero Hubs (NZH) to develop funding solutions and aggregate place-based approaches to Net Zero investment that build local development capacity on a financially sustainable basis
- Consider its role in project development as well as simply a provider of finance, mirroring the role played by other leading publicly-owned investment and development banks such as the European Investment Bank (EIB) and the Inter-American Development Bank (IADB)
- Shape its LA financing capacity to ensure this complements existing LA financing resources to encourage additional Net Zero investment

- Work with sources of government patient capital and private sector providers of capital to develop innovative financing solutions
- Use its industry knowledge, public sector standing and financing expertise to develop solutions that address the natural risk aversion of LAs
- Share its market knowledge with government to inform future policy and regulation developments, and to help ensure that government policy remains consistent over time to support appropriate investment
- Use its market experience and its central position in providing finance and advice for Net Zero investment to share best practices with LAs.



## 2. What we know thus far - mandate and developments:

The current understanding of how UKIB lending and support will function can be determined from recent policy developments:

### Excerpts from Net Zero Strategy<sup>1</sup> (p.265)

- ... the Bank will play a pivotal role in catalysing the role of local government in the transition, by financing strategic infrastructure projects led by local authorities, and providing advice and expertise to strengthen the pipeline of investable projects.
- To complement this investment activity, over time, the UKIB will develop an expert advisory service to help local authorities develop and finance projects. The UKIB will build partnerships across the UK including with government departments, government-sponsored bodies, local authorities and relevant representative organisations to foster collaboration and drive value for money. As it engages with the market, the UKIB will continue to learn and adapt, which will ensure that its loans to local authorities are as effective as possible.

### Excerpts from the Chancellor's letter to UKIB CEO John Flint, 18 March 2022 – Strategic Steer to the UK Infrastructure Bank

The Chancellor, in his recent letter,<sup>2</sup> emphasised the critical role that UKIB will play in unleashing a market-led

<sup>1</sup> <https://www.gov.uk/government/publications/net-zero-strategy>

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1061776/Strategic\\_steer\\_to\\_the\\_UK\\_Infrastructure\\_Bank\\_180322.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1061776/Strategic_steer_to_the_UK_Infrastructure_Bank_180322.pdf)

transition to net-zero while supporting economic growth at a local level which contributes to meeting the goals of the Levelling Up<sup>3</sup> agenda.

- The role the Bank can play in reducing the UK's dependency on fossil fuels and increasing prosperity across the country has been brought into sharp focus by Russia's unprovoked invasion of Ukraine. In particular, it is important that we take every step possible to improve our energy resilience, to protect us from future shocks and volatility in global markets. This does not change the long-term mission of the Bank but emphasises the need to make rapid progress on its Net Zero goals, particularly where they overlap with the government's renewed focus on energy security.

### Prioritisation and definition of infrastructure

- The UKIB Framework Document outlined that it should prioritise in particular clean energy, transport, digital, water and waste. In light of the recent circumstances, I'd encourage you to prioritise opportunities that align with the government's renewed focus on energy security. Examples of relevant opportunities may include helping to bring forward low carbon energy projects that accelerate the UK's transition to clean energy and improve the energy efficiency of buildings and homes.
- Although the construction of new housing should not be considered by the Bank (besides the circumstances set out above), projects or technologies that support energy efficiency, including the retrofit of existing homes and buildings, and/or the decarbonisation of heating, in line with the government's Heat and Buildings Strategy, are in scope. This reflects the strategic importance of the Net Zero transition, as well as the urgent need to improve the

<sup>3</sup> <https://www.gov.uk/government/news/government-unveils-levelling-up-plan-that-will-transform-uk#:~:text=By%202030%2C%20the%20gap%20in,performing%20and%20other%20areas%20closing>



energy efficiency of our buildings in the context of high energy prices and the government's renewed focus on energy security.

### LA lending and advisory service

- There is an exciting opportunity for the Bank to utilise its £4 billion of LA lending capacity to develop high value and strategic projects, across the UK, that meets UKIB's strategic objectives. I look forward to seeing your plans to develop the LA lending offer as the Bank moves into a steady state. More broadly, the UKIB's LA lending offer will exist alongside the Public Works Loans Board (PWLB) which provides lending to LAs for a broad variety of capital spending. In order to maintain a consistent approach to LA lending policy across government, we would like the UKIB to align its approach to assessing LA credit risk (i.e. the risk of non-repayment) with that of the PWLB and to maintain alignment as PWLB policy evolves. Beyond this, as an operationally independent organisation with its own investment principles and mandate, the UKIB should form a judgement on other risks and the merits of specific investment proposals and use its discretion to decide whether or not to invest in an LA project.
- I also look forward to seeing your plans for UKIB's advisory function in the strategic plan. This function will be increasingly important for achieving your policy goals and empowering local authorities to deliver infrastructure projects that bring economic benefits across the country.





### 3. Local authority barriers to Net Zero investment

UK100 has identified, through its engagement with UK LAs, there are a number of key challenges that LAs face in developing and delivering local energy projects.<sup>4</sup> We explore below how the UKIB and its advisory service could help address these barriers.

Local authority Barriers to Net Zero investment	How could UKIB and its advisory service help?
<b>1. Resource constraints to originate and develop projects:</b> LAs have very limited resources to develop projects and this has been exacerbated by the budgetary challenges presented by the COVID-19 pandemic. The five NZH in England have provided some additional development support but they are very thinly spread.	Work with BEIS and the NZH to develop funding solutions to aggregate place-based approaches to Net Zero investment that build local development capacity on a financially sustainable basis.  This could involve the creation of dedicated regionally-focused development funds which combine public and private funding.
<b>2. Competing demands of council revenue and capital budgets:</b> Net Zero investment has to compete with demands on council budgets to provide key services. Again this has been exacerbated by the COVID-19 pandemic.	Help shape the UKIB LA lending capacity to ensure it complements existing LA financing resources to encourage additional Net Zero investment.
<b>3. Lack of patient capital/de-risking finance products:</b> finance products are needed which recognise the risks and long term payback of many low carbon projects.	Work with sources of government patient capital and private sector providers of capital to develop innovative financing solutions.
<b>4. Local energy projects are often small scale:</b> LAs lack the mechanisms to aggregate small scale projects to achieve economies of scale.	Use its pan-UK role to help shape solutions that lend themselves to standardisation and aggregation.
<b>5. Risk aversion:</b> it is generally challenging for the public sector and LAs to invest in innovation/'first of kind' technologies and new delivery models.	Use its industry knowledge, public sector standing and financing expertise to develop solutions that address the natural risk aversion of LAs.
<b>6. Stop/start government policy:</b> low carbon investment has been subject to short term changes around revenue and grant support that has made it difficult to create viable long term programmes that generate economies of scale and drive down unit costs over time.	Share its market knowledge with government to inform future policy and regulation developments, and to help ensure that government policy remains consistent over time.

<sup>4</sup> [https://www.uk100.org/sites/default/files/publications/UKIB%20case%20studies\\_Bristol\\_Nottingham\\_Leeds.pdf](https://www.uk100.org/sites/default/files/publications/UKIB%20case%20studies_Bristol_Nottingham_Leeds.pdf)

<b>7. Constraints of government funding:</b> the terms of government funding to support local energy investment often prevent the optimum potential bids from being made (for example, project scale thresholds, detailed bid criteria, process and timescale requirements). LAs typically 'respond to funding' which in some cases may limit the capacity to develop a more strategic approach.	Use its knowledge of the market to advise on the most cost-effective ways in which government funding should be offered to LAs to encourage the development and delivery of Net Zero investment project pipelines. This could include investment in in-house LA expertise for securing funding.
<b>8. Regulatory constraints:</b> our current regulatory system has been designed to support our existing centralised energy system and therefore creates constraints for developing local solutions.	UKIB's engagement with the market will enable it to understand the constraints that our current regulatory system places on developing local placed-based energy solutions.  UKIB should feed this knowledge back to the government and regulators to influence the development of government and regulatory policy that supports local place-based Net Zero investment.  UK100's Power Shift <sup>5</sup> report lays out the problems facing local and combined authorities in delivering Net Zero and sets out the thematic areas where a fresh approach to powers and resources can enable delivery.
<b>9. PWLB funding:</b> this is relatively inflexible and lacking in innovation. For example, it cannot be used to invest in assets that are not owned by the borrowing LA.	The UKIB will need to ensure that its LA funding capacity is sufficiently innovative and flexible to provide LAs with an attractive new source of funding that encourages them to accelerate the pace of their Net Zero investment. The benefits of using UKIB funding will need to be communicated to LA finance officers and others involved in developing LA Net Zero projects.  Key features to consider include streamlined application process with clear guidance for LAs. - This could be developed in conjunction with the ESC's Net Zero Go <sup>6</sup> tool's ability to fund riskier/additional projects in nature and the built environment.
<b>10. Supply chain capacity:</b> The nature of short term funding creates a reluctance in local supply chains to gear up for short term opportunities, particularly those that require investment in new skills and accreditation.	By creating longer term funding streams for Net Zero investment programmes, the UKIB could work with LAs and project developers to give businesses the confidence to develop the necessary skills and supply chains.
<b>11. Identifying the right projects:</b> Currently LAs struggle to identify which low carbon projects to focus on first, and what is the pathway to a Net Zero local economy.	Helping LAs embed a Net Zero planning process into how they identify projects in a consistent and robust way. This is particularly important for transformation of the energy system, which requires thinking about the interaction of electricity, heat and gas networks, and improvements to the building fabric in an area. Ensuring projects that UKIB support are based on a credible plan based on a robust methodology is an important consideration.

<sup>5</sup> [https://www.uk100.org/sites/default/files/publications/Power\\_Shift.pdf](https://www.uk100.org/sites/default/files/publications/Power_Shift.pdf)

<sup>6</sup> <https://www.netzerogo.org.uk/s/>



# 4. What is required from the UKIB Advisory Service?

As part of its key role in accelerating the rate of Net Zero investment, the UKIB needs to consider how it could support project development in addition to its role as a provider of and finance advisor. This will need to be worked out in conjunction with other government initiatives such as the NZHs. We recommend that the UKIB considers the role played by other leading publicly-owned investment and development banks such as the EIB and the IADB.

In considering how its advisory service will operate, the UKIB will need to decide and publicise the extent to which the provision of technical advisory support will be conditional on using finance provided by the UKIB. It will also need to consider carefully the basis on which such advice is remunerated so that this activity is consistent with the Bank’s overall return objectives. UKIB may want to consider rolling this service out to the private sector to provide a potential source of longer term revenue.

What is required from the UKIB advisory service?	How could the UKIB advisory service provide this support?
1. Critical friend support	<p>The UKIB’s role as a trusted partner to LAs is facilitated by its public sector status. Ownership by HMT enhances the credibility of its ability to support LAs.</p> <p>The UKIB’s advisory service should act as the central body for gathering project proposals from LAs in the UK.</p> <p>The advisory service should be the main resource where innovative market projects go to gain advisory information, project development guidance, and financing advice.</p>
2. Understanding long term project financing	<p>The UKIB should develop deep knowledge of project finance and the flows and requirements of private capital.</p> <p>Its mandate to generate a return on its capital will help ensure that it operates as a disciplined allocator of capital, with the financing and credit expertise to help shape business model solutions that can attract private capital.</p>

3. Complex/multi-vector projects	<p>The UKIB’s focus on Net Zero investment should enable it to develop a market-leading understanding of Net Zero technologies, risks, and solutions.</p> <p>It needs to develop a whole systems approach to understanding and supporting the investment needed to deliver the UK’s Net Zero ambitions.</p> <p>Its advisory service should ensure that it applies this knowledge in supporting LAs with their investment programmes.</p>
4. Support initiating/ getting projects off the ground/scaling	<p>The UKIB should provide project development support that complements other government initiatives such as the NZHs.</p> <p>For example, EIB-type programmes (ELENA) under which UKIB would manage ‘grant’ type funding through repayable capital funds to encourage disciplined capital allocation. UKIB could generate a management fee for supervising this. Examples of eligible activities under ELENA include technical studies, business plans and financial advice, legal advice, tendering procedure preparation, project bundling and project management.</p> <p>The UKIB has a key role to play in fostering collaboration between LAs and private sector partners to achieve scaling up of investment.</p> <p>The advisory service should actively seek to identify viable projects to invest in by issuing a public call for proposals from LAs in all priority sectors. However, it should take care to ensure that open calls for proposals are not treated as bids for financing which risk crowding out private investment. Rather, open calls should be designed to gain information on gaps and infrastructure needs in LAs for the UKIB to invest in.</p> <p>It is key that the advisory service proactively targets and finds effective ways of working with smaller LAs, who are often in most need of capacity support.</p> <p>The advisory service should act as a central body for gathering project proposals from LAs. UKIB could be the central UK entity that supports the development of innovative market projects, from which LAs get project advisory information (in conjunction with the NZHs and Net Zero Go). This would require the advisory service to be equipped with staff who have the necessary competencies to analyse project proposals, gaps, requirements, and viability methods.</p>



<b>5. Heat/waste/natural capital</b>	<p>The UKIB's mandate is to support levelling up and Net Zero investment. Heat, waste, and natural capital are key areas of potential investment for LAs.</p> <p>The UKIB can support projects from proof of concept to mass-market. 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, as well as supporting natural capital. This may require concessionary finance or assuming greater risk than traditional investors in early-stage propositions. The UKIB could support projects and pilots through social housing schemes, projects that aggregate demand for green home retrofit services, and business models which shift the long term upfront costs of retrofit away from the homeowner.</p> <p>In the context of investments in nature, the UKIB should clarify how its funding might complement that of the Natural Environment Investment Readiness Fund (NEIRF) and the Big Nature Impact Fund (BNIF) in England, and the forthcoming equivalent funds in Scotland.</p> <p>Net Zero cannot be delivered without Nature. There are significant economic opportunities that the UK could capture by scaling new markets in this space.<sup>7</sup> The UKIB has an important role to play in supporting this investment.</p>
<b>6. New governance/ business model insight/ support</b>	<p>With its mandate to develop a financing market for Net Zero solutions, the UKIB should have a greater willingness than commercial funders to invest in R&amp;D to develop financing solutions in Net Zero markets.</p> <p>The UKIB should consider how it can provide transformative business model support as outlined in the World Economic Forum Report Financing the Transition to a Net-Zero Future.<sup>8</sup></p> <p>The advisory service could build a mechanism to allow businesses to establish bankable Net Zero projects. The UKIB could assist businesses in the identification of key performance drivers, in partnership with other capital providers, to better commercialise operations based on breakthrough technologies and reduce the costs of innovation leading to greater support from private capital.</p>

<sup>7</sup> <https://www.e3g.org/publications/uk-infrastructure-bank-and-e3g-rountable-creating-resilient-markets-for-nature/>

<sup>8</sup> [https://www3.weforum.org/docs/WEF\\_Financing\\_the\\_Transition\\_to\\_a\\_Net\\_Zero\\_Future\\_2021.pdf](https://www3.weforum.org/docs/WEF_Financing_the_Transition_to_a_Net_Zero_Future_2021.pdf)



<b>7. Help LAs to commercialise their investments to generate appropriate revenue streams</b>	<p>The advisory service should work with LAs as a trusted partner in commercialising investments and generating revenue streams compatible with LAs' public sector obligations.</p> <p>The UKIB should develop commercial expertise to help secure 'best value' outcomes from LA partnerships, recognising the commercial requirements of private sector partners.</p> <p>The advisory service should help to shape UK 'best in class' practice in supporting LAs.</p> <p>The advisory service should work closely with the UKIB's financing teams to develop funding solutions that address the needs of LA projects, including blended capital packages from different sources of public and private capital, necessary to close investment gaps to innovative Net Zero solutions.</p> <p>The advisory service could coordinate a collaborative effort to activate the involvement of various stakeholders from the UK's transition finance ecosystem and ensure a level playing field where financiers are not having to pick "winners and losers."</p> <p>The UKIB should consider how its advisory service can support LAs of all sizes, not simply larger and combined authorities, as smaller LAs are often most in need of TA support. The UKIB needs to emphasise that no LA will be left behind and in its support for the Levelling Up agenda.</p>
<b>8. Make the case to Government regarding LA capacity</b>	<p>The UKIB will have the ability to influence the development of government policy on support and capacity needed within LAs to develop and deliver Net Zero investment.</p> <p>One area of consideration is whether the UKIB could provide staff who are embedded in LA teams to help drive projects on the ground, or whether its staff should be based within the UKIB.</p> <p>Capacity building at the local level is important – the advisory service needs to have checks to ensure that the UKIB's processes are standardised so it can effectively reach as many LAs as possible.</p>
<b>9. Work with NZHs</b>	<p>The UKIB has a potential convening role across government departments to help ensure optimal deployment and use of public sector resources to accelerate Net Zero investment.</p> <p>"Matchmaking" role - the advisory service should help shape the strategic role that the UKIB can play in working with different sources of funding for projects regardless of risk levels. For example, the advisory service could work with the NZHs, regional capital investors (e.g. the Bristol &amp; Bath Regional Capital) and local funds, to match viable projects with complementary finance providers.</p> <p>The UKIB's lending capacity and its advisory service should be used to maximise the amount of Net Zero investment that can be achieved with the public funding allocated by the government to support this.</p>
<b>10. Share best practice</b>	<p>The UKIB's role at the forefront of supporting LA investment in Net Zero projects, and its trusted partner status, make it well placed to act as the central body to share best practices. This could be facilitated by Net Zero Go - the new tool developed by ESC.<sup>9</sup></p> <p>Aggregation of best practices and learnings, as well as regular transparent reporting, will support capacity and capability growth.</p>

<sup>9</sup> <https://www.netzerogo.org.uk/s/>



# 5. Case Studies

Technical assistance needs to include procurement, financial modelling, technical feasibility, etc. Here we offer insight from a series of case studies demonstrating how international examples of similar banks have afforded support to LAs, as well as some examples of what innovative financing can do, from across the UK.

Bank	Advisory Service Project Development Function
<p><b>EiB – European Local Energy Assistance Programme (ELENA)<sup>10</sup></b></p>	<p>ELENA provides technical assistance for energy efficiency and renewable energy investments targeting buildings, residential sustainability, and innovative urban transport. ELENA is critical that the technical assistance provided should not be for profit-making projects. ELENA attracts private finance by encouraging and supporting the aggregation of different projects to increase the attractiveness for contractors and financiers.</p> <p>ELENA supports investment programmes above €30 million with a three-year implementation period. It is eligible to public and private sector actors in EU member states and grants are provided for supporting technical studies, energy audits, business plans and financial advisory, legal advice, tendering procedure preparation, project bundling, and project management.</p> <p><b>Bristol Retrofitting – Innovative Technology for Everyone (BRITE) (June 2012 – May 2016)<sup>11</sup>:</b></p> <p>Bristol City Council’s ELENA Programme helped mobilise and deliver energy infrastructure projects in the city through procurement support. The investment programme consisted of five strands to support: district heating, public sector retrofitting, solar PV installations, retrofitting works on the Council’s housing stock and Green Deal measures. Each strand of the programme was supported by ELENA through the creation of a delivery plan that was developed and implemented through procurement support.</p> <p>Through ELENA’s support, the BRITE programme resulted in over 19GWh of annual energy savings, 26 GWh of annual renewable energy generation, and 9,053 tonnes of annual CO<sub>2</sub> emissions reductions.</p>
<p><b>Solar Together Scheme<sup>12</sup></b></p>	<p>The Solar Together scheme consists of a group-buying scheme for residents living in a participating council area. The scheme helps communities access solar PV systems, battery storage, and EV home charging points at lower cost through bulk buying.</p> <p>The Bank’s advisory service could aggregate demand for renewable energy technology deployment by connecting with initiatives such as the Solar Together Scheme and providing concessional finance to further support more LAs to meet Net Zero targets.</p>

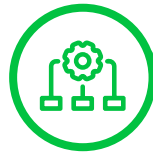
10 <https://www.eib.org/en/products/advising/elena/index.htm>

11 <https://www.eib.org/attachments/documents/elena-completed-brite-en.pdf>

12 <https://solartogether.co.uk/landing>

<p><b>Inclusive Growth Network<sup>13</sup></b></p>	<p>The Inclusive Growth Network provides peer-to-peer and tailored support through centralised resources that work with a cohort of twelve LAs to help address delivery challenges and build inclusive local economies.</p>
<p><b>IADB – NDC Invest Programme<sup>14</sup></b></p>	<p>Since 2016, the IADB’s NDC Invest programme has supported over 331 climate initiatives across 25 member countries in Latin America and the Caribbean (LAC), at regional and country levels. It has successfully assisted countries in turning their Nationally Determined Contributions (NDCs) under the Paris Agreement into robust plans that contribute towards achieving Net Zero emissions, climate-resilient and sustainable development goals.</p> <p>The NDC Invest Programme functions as the central body within the IADB, equipped with a comprehensive package of assistance toolkit for programming, policy development, and delivery of financial instruments for the successful implementation of NDC plans. The success of the NDC Invest Programme is attributed to the following three aspects of technical assistance:</p> <ul style="list-style-type: none"> <li>• It facilitates access to climate finance and simplifies the associated procedures for application by providing tailored support at the initial stages.</li> <li>• The programme ensures that the internal process within the IADB aligns to provide cross-sectoral solutions to respond to the NDC’s objectives and the Paris Agreement.</li> <li>• NDC investment has an emphasis on supporting a programmatic approach to NDC implementation on a comprehensive portfolio basis, rather than on a project-by-project approach to delivering low carbon and resilient development.</li> </ul>

Using insight from these case studies it is clear that there are clear areas for UKIB to support with its advisory service:



## Project Development

- Programme development: joined place-based approaches operating at scale: e.g. Bristol, Nottingham, Manchester, PfER projects – support in the development of financeable public-private partnership structures
- Public/private partnership – helping to shape contracts that are financeable and bring private sector partners in at as early a stage as possible
- Consider inclusion of natural capital projects, such as Pollination Group’s Nature Valued Project<sup>15</sup>
- Consider the delivery models outlined in Accelerating Net Zero Delivery – Unlocking the benefits of climate action in UK city regions to be published in March

13 <https://www.progressive-policy.net/ign/who-we-are>

14 <https://www.ndcinvest.org/>

15 <https://pollinationgroup.com/case-study/nature-valued-project/>





### Financing investible projects

- Creation of place-based infrastructure funds – to ensure that the public sector retains appropriate equity stakes in long term infrastructure that it has funded
- Combining public ‘patient capital’ with private capital e.g. HNIP



### Piloting innovation and unproven technologies

There remains a significant gap in terms of LA capabilities for delivering innovative Net Zero projects through experimentation of new technologies and approaches, particularly in developing successful pilots and scaling them up. UKIB has an important role to play, potentially in conjunction with Innovate UK, in helping LAs to shape and de-risk investment approaches that can be tested at pilot scale prior to deployment at a larger regional or national scale with the support of private finance.



### Clarity on process

UKIB needs to support the staging process of taking ideas, financing them, and delivering successful projects. As a part of this, the advisory service needs to provide information on what a staging process could look like - how to design, set up projects, test cases and prototypes so that this information is readily available to all LAs, not just the most advanced or experienced.



### Help to build trust

UKIB’s advisory service should be developed as either a central hub for learning and support, or in a way that supports and feeds into other entities that can provide this service, for example NetZeroGo or the Net Zero Hubs. It is important that UKIB is transparent in knowledge sharing with support and resources available to all. Lessons learned from previous financing should be shared with current and future recipients of UKIB support. The possibility of rolling this service out to the private sector in due course, to provide a potential source of longer term revenue for the Bank, is also an option that warrants consideration.



### Market oversight

UKIB has a crucial market oversight role to play. Given its market leading role in helping to finance Net Zero investment and crowding in private capital, UKIB will be well placed to advise LAs on the evolving financing markets for Net Zero investment and to support them to develop programme scale solutions that aggregate projects and facilitate the crowding in of private capital.





## 6. The role of UKIB in a broader local financing ecosystem

### How does it all fit together?

As the UKIB prepares to launch its business plan, another key element to consider is its future relationship with the emerging Net Zero financing landscape which is emerging in the UK and how the constituent parts of this evolving jigsaw fit together. In particular the following questions endure, but remit, roles and responsibilities need to be clarified to ensure that the gaps and duplication of effort in financing on the ground delivery of Net Zero are minimised.

- Relationship between UKIB and other UK Government funding pots – e.g. PWLB, British Business Bank, BEIS, DLUHC and DEFRA funding: It is clear that long-term non-competitive funding is required by LAs to deliver - LAs should not be competing with each other for resources. Some of this finance should come from UKIB. There will be areas in scope and out of scope for the bank, but its business plan needs to be explicit about what it will and will not fund so that LAs in their efforts to deliver scaled multi-vector projects can be planned accordingly. Where the bank will not be funding, they need this clarity.
- Relationship with the NZH and the Local Net Zero Forum - The NZH have an expanded remit since April 2022 but again what this is and how it will be resourced remains unclear. Similarly the Local Net Zero Forum can play a role in improving the communication and collaboration on Net Zero at the local and national levels, but the areas of focus and the governance arrangements are still being formulated so the relationship between this organisational development and the Bank's role in financing is unclear at the current time.

There is a need for the Green Finance Strategy to articulate some of these details more clearly.





## 7. Conclusion and recommendations

The establishment of UKIB is a positive development and has the potential to enable LAs to deliver on their Net Zero ambitions by providing access to finance. It is important therefore that this potential is maximised by ensuring that UKIB develops its LA lending and advisory service to overcome the current barriers and challenges LAs face in project development and deployment. Its advisory service must work closely with its LA lending capacity to help LAs develop large scale investment programmes that can attract private capital to deliver the pace of investment that is needed to deliver the UK's Net Zero objectives.

By providing a thorough examination of the context LAs are working in and outlining how UKIB could craft its role to overcome the market, governance and technical challenges, this briefing is intended to ensure that the advisory service and lending capabilities are as impactful as they can be from the outset.

### **Our key recommendations are that the UKIB should:**

- Work with the Department for Business, Energy and Industrial Strategy (BEIS) and the Net Zero Hubs (NZH) to develop funding solutions and aggregate place-based approaches to Net Zero investment that build local development capacity on a financially sustainable basis
- Consider its role in project development as well as simply a provider of finance, mirroring the role played by other leading publicly-owned investment and development banks such as the European Investment Bank (EIB) and the Inter-American Development Bank (IADB)
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- Work with sources of government patient capital and private sector providers of capital to develop innovative financing solutions
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