

**West of England Local Enterprise Partnership
Board meeting – Wednesday 19 January 2022**

Increasing Investment and Scale of Net Zero Energy Projects

Purpose of the report

1. To brief the LEP Board on the activities of the South West Energy Hub and to explore how the LEP Board can help to bring scale, speed and investment of place-based energy projects to achieve the region's Net Zero ambition.

Recommendation

That the LEP Board considers the opportunities of private and community investment to support the region's Net Zero and Carbon Neutral goals and how it can enable smart local energy systems of integrated electricity, heat and transport cross sector projects.

Background

The South West Energy Hub was set up in late 2018 to work with organisations and communities across the South West region to identify, develop and implement green energy projects.

The energy hub is one of five that have been established across England, funded by the Department for Business, Energy and Industrial Strategy.

In the South West, the hub covers seven Local Enterprise Partnership (LEP) areas. The West of England Combined Authority is the lead partner in the project and hosts the energy hub team.

Objectives of the South West Energy Hub

- Increase number, quality and commercial appeal of local energy projects being delivered.
- Provide regional leadership, including raising local awareness of opportunities for and benefits of local energy investment, and liaison with BEIS.
- Enable local areas to attract private and/or public finance for energy projects.
- Identify opportunities for income from projects and other programmes delivered by the hub to contribute towards additional core funding
- Support and deliver relevant Government schemes, as agreed between BEIS and the Lead Authority.
- Improve the collaboration, coordination and sharing of best practice and opportunities across LEPs. Local Authorities and hubs via shared projects, toolkits and platforms.

To deliver these objectives the Energy Hub deliver a number of services and programmes across the wider south west, including:

- Local Capacity Support – providing resource support to the public sector to identify and develop local energy projects

- Rural Community Energy Fund – £1.8m of grants to community groups to undertake feasibility studies and further development activity for energy projects
- Green Homes Grant Local Authority Delivery – a £52m housing retrofit programme to upgrade EPC rated D, E, F & G properties for low income households
- Public Sector Decarbonisation – supporting wider public sector to develop Net Zero organisational plans and develop investment grade proposals for funding
- COP 26 Zero Carbon Bus Tour and Regional Roadshows

Why the need increase scale and attract investment

In order to deliver on the Net Zero and Carbon neutrality targets set by the West of England Combined Authority and the Unitary Authorities, an increase in the scale of local energy activity is required. This is recognised in the action plans to deliver the targets which require significant changes in buildings, renewable energy generation (heat and power) and transport across the West of England. There are a range of public sector schemes in place which could be used to finance these projects but private investment will also be necessary if these targets are to be met.

A place-based approach

Smart local energy systems (SLES) and projects comprise place-based responses to economic, environmental and social needs related to energy. Research by EnergyRev shows SLES provide a more equitable approach addressing fuel poverty issues, delivering wider environmental benefits, balancing supply and demand locally and increasing the resilience of local networks.

The research undertaken by EnergyRev of SLES projects in the past 10 years shows that the majority of projects in the UK had a budget below £10m and were publicly funded by either EU or UK. A survey of stakeholders attending an Energy Hub and UK:100 Financing Local Energy event in Bristol in November 2019 also confirmed most projects were under £10m. What is also clear is the characteristics of smart local energy projects varies from place to place. Variations include scale, boundaries, the nature of partnerships and finance.

The Government's Net Zero Strategy estimates that to deliver the UK's Net Zero ambitions will require capital investment to grow to an average of £50-60bn per year by the end of this decade. Most of this will come from the private sector. Furthermore, the UK Cities Climate Investment Commission (UK CCIC) estimates that £206bn must be spent to achieve Net Zero pledges across the UK's Core Cities and London Councils, representing one quarter of the population.

A key finding of The UKCIC report is that single sector stand alone projects offer less economic incentives to investors than interventions across multiple sectors in single places. A place based cross sector approach offer the potential for aggregating revenue streams and finance, delivering economies of scale and maximising the climate benefits, alongside other financial, social and environmental co-benefits.

The Scaling Up Institutional Investment for Place Based Impact White Paper presents a Place Based Impact Investment Conceptual Model for investors which will help to deliver both the climate change and levelling up agenda. It suggests five pillars representing local policy priorities and real economy sectors with investment opportunity, included are housing, SME finance, clean energy, infrastructure and regeneration. Although the white paper

focussed on the Local Government Pension Scheme it showed that where the 1% of funds which were invested locally in those sectors allocations tended to average £10m.

There is a great opportunity for place based smart local energy schemes to attract investment to achieve local climate change goals there are investors and initiatives established or mobilising to this effect, such as Abundance, UK Infrastructure Bank, Bankers Without Boundaries, Green Finance Institute and Local Government Pension Scheme in some places of the UK. This list is not exhaustive.

A key requirement of investors is to have a pipeline of projects in which to invest, which relies on local co-ordinated action, including development finance. Locally Bristol is an excellent example of identifying a pipeline of projects into an investment proposition to secure private sector investment, this and other examples are set out in Annex 1. There are further opportunities across the West of England, identified in the climate change strategies published by each authority.

How can the LEP Board help?

There is a clear need, interest and momentum in place-based investment. Research of projects and financial institution needs propose that the optimum conditions would integrate electricity, heat and transport projects and be cross sector to offer scale and a range of benefits.

We would like to explore how the LEP Board could use its position representing a cross section of sectors and interests in the West of England and having a strategic overview of the region to help identify the pipeline of projects necessary and support engagement with private and community finance.

The LEP Board can support engagement with the various stakeholders in the West of England required to bring smart local energy projects together into investible portfolios through:

- Actively engaging with local networks to explore what projects are in development and flag any potential pipeline opportunities to take forward
- Let us know if individual members are willing to work more directly with the South West Energy Hub to develop and front a programme of activity across the region to develop smart local energy opportunities
- Providing strategic oversight of smart local energy pipeline development

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Annex 1

Examples of place-based initiatives in the UK

Bristol City LEAP

City Leap is a series of energy and infrastructure investment opportunities that represent a big step towards a cleaner, greener Bristol. The aim is to appoint a City Leap Strategic Partner to enter into a 20-year joint venture with the council with the aim of delivering between £800 £1bn of investment in low carbon energy infrastructure in Bristol and support the aim of Bristol becoming a carbon neutral city by 2030.

The City Leap Prospectus identified investment opportunities across a number of energy projects:

- Heat networks £300m
- Smart energy system £125m
- Domestic energy efficiency £300m
- Commercial energy efficiency £100m
- Renewable energy £40m
- Monitoring, dissemination and evaluation £10m
- Transport Additional
- Hydrogen Additional
- Marine energy Additional
- Total £875m

The Council is currently in the final stages of procurement with three strategic partners, with a new joint venture company expected to be in operations later in 2022.

Leeds Energy Accelerator

The Energy Accelerator is the only programme of its kind anywhere in the UK and is funded by the Leeds City Region Growth Deal and the European Investment Bank's European Local Energy Assistance (ELENA) programme.

It offers support and funding for low-carbon projects in Leeds City Region, enabling at least £120 million worth of capital investment and helping the City Region achieve our aim of being a net zero carbon economy by 2038 at the latest.

It also provides technical, commercial and legal services to the public, private, academic and community sectors to develop low carbon projects in four key sectors:

- the installation of commercial and domestic retrofit technologies onto buildings that will improve energy efficiency, decrease energy demand and/or use renewable energy
- integration of renewable energy sources into buildings such as solar thermal collectors and biomass
- upgrading street lighting and traffic signals
- renovating, extending or building new district heat and cooling networks using renewable heat sources to reduce carbon emissions and increase carbon efficiency.

Cambridge

Cambridge County Council has been leading the Mobilising Local Energy Investment (MLEI) project, an award-winning local authority energy investment programme including four other

LAs. MLEI has invested over £20mn in energy generation and energy efficiency, working with 40 schools, seven Council own sites, and has also delivered a 12MW solar farm built on Council owned land.

The project uses tested solutions with new approaches to replicate delivery, working across electricity and heat production, building energy efficiency, and moving into the transport sector.

The original project ran 2012 to 2015 with an aim of delivering €17mn (£15mn) of local energy investment, a target which was met in September 2015. MLEI has continued since, with new focuses on transport and heat and securing private investment

Orkney

ReFLEX Orkney is pioneering an integrated, affordable, low-carbon energy system for the future. It is a £28.5 million project aiming to create an integrated energy system (IES) in Orkney, Scotland.

Funded by UKRI through the Industrial Strategy Challenge Fund, the project is led by the European Marine Energy Centre (EMEC) with cross-sector partners including Aquatera, SMS, Community Energy Scotland, Heriot-Watt University and Orkney Islands Council.

The project aims to interlink local electricity, transport and heat networks into one controllable, overarching system, digitally connecting distributed and variable renewable generation to flexible demand.