

The Local Net Zero Accelerator (LNZA)

Net Zero Investment Training Programme

Module 5: Exploring Innovative Financing for Net Zero Projects

Funded by



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Fit4Finance

The Local Net Zero Accelerator



Department for
Energy Security
& Net Zero

Government has provided £19 million to unleash the potential of local government to attract new investment for green growth by piloting new approaches in three areas.

1. Two Local Net Zero Accelerators: Greater Manchester Combined Authority and West Midlands Combined Authority will develop aggregated bundles of projects to secure long-term sustainable investment.
2. A City Leap Replicator: York & North Yorkshire Combined Authority will replicate a similar model to Bristol City Leap, which has established an innovative public-private partnership to secure investment into decarbonising Bristol's council owned estate.
3. Local Net Zero Finance Support Service: to provide access to relevant financial skills, knowledge, and experience.

GMCA GREATER
MANCHESTER
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AUTHORITY


West Midlands
Combined Authority


YORK
& NORTH
YORKSHIRE
COMBINED AUTHORITY


Greater
South East
Net Zero Hub

The Net Zero Investment Training Programme

Objectives:

- Provide specialized investment training tailored for local authority professionals that hold positions related to the development and/or financing of net-zero projects
- Up-skill local authority professionals so that they are better placed to both develop and finance Net Zero projects
- Provide training to local authority staff so that they are better placed to support their respective authorities to deliver on climate ambitions/targets

Audience:

- Local Authority Section 151 Officers (Finance Directors)
- Climate, Environment or Sustainability Officers/Directors
- Any other local authority professionals involved in the development or financing of Net Zero projects

The Net Zero Investment Training Programme: Structure

The Net Zero Investment Training Programme is a specialized programme consisting of 6 modules, each requiring a total of 20 hours split between guided and independent learning to complete. The 6 modules are:

1. Understanding the Basics of Net Zero Finance
2. Options Analysis and Appraisal
3. Develop an Effective Business Case
4. Financial Modelling for Net Zero Projects
5. Exploring Innovative Financing for Net Zero
6. Whole-System Financing for Net Zero

Module 5: Exploring Innovative Financing for Net Zero Projects

This module comprises **20 hours of Total Qualification Time (TQT)**, made up of:

- **10 hours** of Guided Learning Hours
- **10 hours** of Independent Learning Hours

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Overview

The purpose of this learning module is to build practical understanding of innovative financing approaches that can support the development and delivery of net-zero projects within local authorities.

The objective is to equip personnel with applied investment knowledge that strengthens decision-making across finance, sustainability, infrastructure, and policy functions.

Use of jargon or complex explanations is limited to concepts that are essential for informed engagement with investors, lenders, and funding institutions.

Contents

Each section requires a total of **5 learning hours: 2.5 hours of Guided Learning and 2.5 hours of Independent Learning.**

Section 1: Heat as a Service:

- Core concepts
- Commercial & financial structure
- Case study

Section 2: Blended finance models

- Instruments & structures
- Designing a blended finance structure
- Case Study

Section 3: Community-based financing

- Instruments & models
- Local authority roles
- Case study

Section 4: Green bonds & climate-themed funds

- Issuance process
- Local authority applications
- Climate-themed funds
- Case study

Glossary

- **TA:** Technical Assistance
- **ELEN:** European Local Energy Assistance
- **HaaS:** Heat as a Service
- **ESCO:** Energy Services Company
- **ESG:** Environmental, Social, and Governance
- **KPI:** Key Performance Indicator
- **ICMA:** International Capital Market Association
- **CMI:** Community Municipal Investment
- **LGPS:** Local Government Pension Scheme
- **EIB :** European Investment Bank

Section 1: Heat as a Service (HaaS)

Summary

Introduces Heat as a Service as a performance-based model that shifts operational and capital risk from asset owner to service provider.

Learning Outcomes

- Distinguish HaaS from traditional heat procurement models
- Identify key risk allocation considerations
- Assess when HaaS may be commercially appropriate within their estate

Section 1 requires 5 learning hours: 2.5 hours of Guided Learning and 2.5 hours of Independent Learning.

What is Heat as a Service?

Heat as a Service: A model where customers pay for delivered heat performance, not for owning heating equipment.

A specialist provider designs, finances, installs, and operates the heating system

The customer pays a recurring service fee instead of funding upfront capital expenditure

Focus on comfort, reliability and energy efficiency

Contracts are typically long-term to allow cost recovery and investor returns (10–20 years)

How HaaS Differs from Traditional Heat Supply

Traditional model	HaaS Model
Authority procures and owns equipment	Provider owns and operates assets
Upfront capital expenditure	Limited upfront capital from authority
Authority responsible for maintenance and performance	Provider responsible for performance
Energy purchased per kWh	Payment linked to service delivery

Key difference: Risk shifts from asset owner to service provider.

Why HaaS Supports Net-Zero Objectives

HaaS aligns commercial incentives with decarbonisation:

Providers are incentivized to reduce energy consumption because efficiency improves margins

Encourages deployment of heat pumps and low-carbon systems

Enables deep retrofit without large upfront public capital

Supports delivery of long-term carbon targets

Paying for Outcomes, Not Energy Units

Under a HaaS contract, payment is typically linked to outcomes such as:

- Maintaining agreed indoor temperature ranges

- Guaranteeing system availability and uptime

- Delivering agreed efficiency levels

- Meeting defined performance benchmarks

This shifts focus from “how much energy is used” to “how well the building performs.”

The Role of Smart Controls and Digital Metering

Outcome-based contracts require measurable performance:

Smart thermostats and building management systems track temperature and usage

Digital meters provide real-time energy data

Real-time performance tracking

Transparent reporting to client

Customer Value Proposition

For Local Authorities, HaaS can:

Reduce pressure on constrained capital budgets

Convert unpredictable maintenance costs into predictable service payments

Transfer technical and performance risk to specialists

Enable access to private capital and expertise

Improve long-term asset performance without direct operational burden.

Barriers to Adoption in the UK

Adoption challenges are often institutional rather than technical

Typical blockers you'll recognize:

Public procurement frameworks can struggle with long-term service models

Budgeting structures separate capital and operational expenditure

Internal teams may lack experience with performance-based contracts

Authorities may hesitate to enter long-duration agreements

Future energy price uncertainty complicates modelling

Opportunities for Local Authorities

HaaS becomes commercially viable when projects are aggregated:

Large public building portfolios improve scale and attract investors

Social housing estates offer repeatable retrofit opportunities

District heat networks can be structured under service concessions

Multi-site estates reduce transaction costs through bundling

Revenue Models in HaaS

Think of this as “how the provider gets paid and what drives investor comfort.”

Common revenue structures:

- **Fixed fee** (predictable payments for agreed service)
- **Indexed fee** (protects against inflation)
- **Performance-linked fee** (part of payment depends on delivery)
- **Shared savings** (provider shares verified cost savings)

Capex/Opex Allocation Across Stakeholders

A simple before/after lens

Before (traditional): Authority pays capex → authority carries maintenance + performance risks.

After (HaaS): Provider funds capex → authority pays service fee (over time) → provider carries performance obligations.

What you must clarify in the contract:

- What costs sit inside the fee (maintenance, replacement, controls, reporting)
- What sits outside (building fabric works, meter upgrades, major interface works)

Contract Structures (ESCOs, concessions, service contracts)

Three common structures (use whichever matches the asset context):

- **Service contract:** provider delivers agreed service; authority retains more control
- **ESCO / energy performance contracting:** performance guaranteed; savings/outputs underpin payments
- **Concession-style model:** often used for network/area approaches; longer term, broader scope

Performance-Based Contracting

What “good” performance contracting includes:

Clear KPIs (comfort, uptime, efficiency)

Measurement & verification approach (how performance is proven)

Remedies (credits/penalties) if performance fails

Incentives for exceeding targets (optional, but powerful)

Risk Allocation (performance, demand, technology, price)

Risk mapping (who should carry what):

- **Performance risk** → provider (they control operations)
- **Technology risk** → usually provider (if they choose/design the system)
- **Demand/usage risk** → can be shared (depends on building use changes)
- **Energy price risk** → depends on whether fee is fixed, indexed, or pass-through

Risk should sit with the party best able to manage it

Investor Expectations in HaaS

Investors typically want to see:

Long-term, contracted cashflows (service payments)

A credible counterparty and strong payment discipline

Clear KPIs and enforceable performance regime

Replicable model (pipeline potential, not one-off)

Sensible termination/step-in rights that protect downside

How HaaS Attracts Private Capital

Why investors pay attention: HaaS can look like infrastructure.

It can offer:

Contracted revenues over long duration

A measurable service output with operational control

Portfolio scaling (more buildings added over time)

Clear ESG linkage (efficiency + emissions reduction)

Long-Term Service Agreements

Contract terms that usually matter most (a quick checklist):

- Duration and renewal options
- Indexation (how fees change over time)
- Performance regime (KPIs + measurement)
- Termination and handback conditions
- Change-in-law and scope-change provisions
- Data ownership and reporting requirements

Local Authority (LA) as Facilitator

How facilitation creates value:

Aggregates buildings and demand into a bankable bundle

Shares data (asset condition, usage profiles) to reduce development risk

Streamlines approvals and internal coordination

Signals long-term commitment (which reduces perceived counterparty risk)

LA as Investor / Co-Investor

When co-investment makes sense:

Early-stage pipeline needs credibility and momentum

Small public contribution can unlock larger private commitment

Authority wants influence over delivery outcomes (within governance bounds)

What to be careful about: risk exposure and affordability over the life of the contract

LA as Asset Owner (heat networks, public buildings)

Owning assets changes your options.

If the LA owns buildings or networks, it can:

Offer sites / anchor demand

Bundle works across estate

Align operational standards across buildings

Negotiate better risk allocation because it controls access and pipelines

LA as Regulator / Policy Shaper

Policy affects investability.

Authorities influence:

Planning and local policy signals that affect delivery risk

Heat planning / zoning approaches

Procurement standards and performance requirements

Coordination across stakeholders (housing, planning, finance)

Case study: HaaS for public buildings (RE:FIT)

What it is: RE:FIT is an energy performance contracting framework that helps public sector organizations procure retrofit projects with performance guarantees.

Why it's relevant to HaaS thinking:

- Uses performance-based contracting and measurement practices
- Helps reduce procurement friction through a known framework
- Supports portfolio approaches across public buildings

Frameworks + guarantees can reduce delivery risk and speed up programmes

Source: [London.gov](https://www.london.gov.uk/what-we-do/energy-and-climate/energy-performance)

Case study: Domestic retrofit HaaS model (Sero)

What it is: Sero is a UK-based organization working with social housing and partners on delivering energy-efficient, net-zero aligned homes, combining retrofit capability with energy services.

Why it's useful as a teaching example:

- Shows service-oriented thinking applied to homes
- Highlights the role of performance + ongoing management
- Connects retrofit delivery with operational outcomes (bills, comfort, carbon)

Source: [Sero](#)

Case study: Heat network / city-scale integration (Bristol City Leap)

What it is: Bristol City Leap is a long-term strategic partnership designed to accelerate investment into Bristol's energy system and decarbonisation.

Why it matters for this module:

- Illustrates aggregation at city-scale
- Demonstrates long-term partnership structures
- Shows how private capital can be mobilised for multi-asset decarbonisation

Source: [Bristol City Leap](#)

Exercise: Map HaaS risks and mitigations

Group task (10–15 minutes): Choose one building type (school / leisure centre / housing block).

1. Identify 4 risks under HaaS (performance, demand, technology, energy price, governance)
2. Assign who should manage each risk (Authority / Provider / Shared).
3. Propose one mitigation per risk (KPI, indexation, step-in, reserves, data access)

Output: A simple risk table you can discuss as a group

Exercise: Draft a HaaS value proposition

Prompt: You are pitching HaaS to your internal finance team

Write 4 sentences that answer:

- What problem this solves for the authority
- Why it is affordable and manageable
- Why the risk allocation is sensible
- Why a provider/investor would be willing to participate

Section 2: Blended Finance Models

Summary

Introduces blended finance as a mechanism for mobilizing private capital through targeted public intervention.

Learning Outcomes

- Diagnose the financing gap preventing private investment
- Select appropriate blended instruments based on risk characteristics
- Evaluate affordability, subsidy control, and value-for-money implications

Section 2 requires 5 learning hours: 2.5 hours of Guided Learning and 2.5 hours of Independent Learning.

What is blended finance?

Blended finance uses public or philanthropic capital ***strategically*** to make projects investable for private capital.

In practice it means:

- Public money reduces specific risks (not “subsidizes everything”)
- Private money comes in because the deal becomes bankable
- The public contribution is designed to be the minimum needed

“Use public capital to unlock private capital”

Why blended finance is essential for net-zero

Many net-zero projects are economically valuable but financially hard to fund.

Common reasons:

- Long payback periods and high upfront capex
- Performance and demand uncertainty (especially retrofit)
- Early-stage development gaps (feasibility, procurement, legal structuring)
- Perceived policy/regulatory risk

Blended finance helps bridge the gap between “good project” and “bankable project.”

Risk-return optimization

The core idea: investors price risk. If risk is too high, capital won't flow—or it becomes unaffordable.

Blended finance optimizes risk-return by:

- Reducing downside risk (e.g., guarantees, first-loss facilities)
- Improving revenue certainty (e.g., long-term contracts, anchor offtake)
- Lowering cost of capital (e.g., concessional debt)
- Funding early-stage work (technical assistance)

How public capital “crowds in” private capital

Crowding-in occurs when public capital:

1. Targets the specific barrier preventing private investment
2. Proves the model / creates track record
3. Enables scale (portfolio / pipeline)

Good crowding-in is:

- Targeted
- Time-bound
- Additional (it unlocks investment that wouldn't otherwise happen)

Types of public capital used in blended structures

Public capital can enter different layers of the capital stack:

Grants (project prep, affordability support, results-based components)

Concessional loans (below-market terms)

Guarantees (reduce lender downside)

First-loss capital (absorbs initial losses) **Equity / co-investment** (signals confidence, shares upside)

Technical assistance (funds structuring and procurement)

***Question:** Which of these reduces risk vs reduces cost?*

Types of public capital used in blended structures

The barriers are usually internal and institutional:

- Limited capacity to structure complex deals
- Procurement and governance constraints
- Inconsistent project pipelines (no investable programme)
- Budget rules: capex/opex and affordability tensions
- Compliance obligations (e.g., subsidy control)

Concessional loans

A concessional loan offers below-market terms to make a project viable.

Typical concessions:

- Lower interest rate
- Longer tenor
- Grace period / delayed repayment
- Flexible repayment linked to performance

When it fits: where the project is almost viable but affordability / early cashflows are tight.

Guarantees and risk-sharing facilities

A guarantee protects lenders (or investors) against defined losses.

What it can cover:

- Credit risk (non-payment)
- Performance risk (under-delivery triggers)
- Construction completion risk (in some cases)

First-loss capital

First-loss capital is money that absorbs initial losses before senior investors are affected. First-loss should be the minimum required otherwise public capital is over-exposed.

Why it's powerful:

- Makes senior capital safe
- Improves credit profile
- Can bring institutional investors into new sectors

Technical assistance facilities

Technical assistance (TA) funds the work that makes projects investable.

TA typically pays for:

- Feasibility and business cases
- Procurement support
- Legal structuring
- M&V frameworks
- Aggregation/Programme design

European example: European Local Energy Assistance (ELENA) provides TA grants to prepare energy efficiency and sustainable mobility investments

Source: [ELENA](#)

Results-based financing

Results-based financing pays when agreed outputs are delivered. It helps reduce perceived performance risk and incentivizes delivery quality.

Examples of results:

- Verified energy savings
- Emissions reductions
- Buildings retrofitted to a standard
- M&V frameworks
- Aggregation/Programme design

Revolving funds

A revolving fund reinvests repayments/savings into new projects.

Why LAs use it:

- Creates a repeatable funding mechanism
- Supports programme scale delivery
- Keeps capital circulating locally

UK example concept: Salix-type models have been used in the public sector to finance energy efficiency with repayments/savings funding future measures.

Source: [World Bank](#)

Layered capital structures

Layering means stacking different types of capital with different risk/return expectations. A simple layered example:

- Grant / TA (reduces development risk)
- First loss / subordinated (absorbs downside)
- Senior debt (main funding)
- Equity (optional; shares upside)

Why it matters: each layer has a job - if layers are misused, the structure becomes expensive and fragile

Identifying the financing gap

Start with a diagnostic, not an instrument.

Ask:

What stops private capital today? (risk, tenor, revenue certainty, pipeline?)

What is the “missing piece”: affordability, guarantees, prep funding?

Which risk is unpriced vs which is overpriced?

Output: a one-page “barrier-to-capital” statement.

Determining minimum public contribution

Rule: use the smallest public contribution that unlocks private capital.

How to test “**minimum**”:

- Compare investor terms with and without support
- Model affordability constraints
- Pilot at small scale before scaling
- Avoid over-subsidizing bankable elements

Assessing investor appetite

Investors will ask:

What's the revenue contract and counterparty strength?

What risks exist and who carries them?

Is there a replicable pipeline (programme, not one-off)?

What's the exit / refinance path?

Aligning incentives across stakeholders

Quick alignment check:

- Does the provider earn more by delivering better performance?
- Does the authority have enforceable KPIs and governance?
- Are lenders protected from risks they can't manage?
- Are communities protected from affordability shocks?

Ensuring compliance with subsidy control rules

In the UK context, public contributions may trigger subsidy control considerations. A practical approach for LAs would be:

Identify whether support confers a selective economic advantage

Document the policy objective and rationale

Ensure proportionality (no more than necessary)

Keep clear records and transparency

Ensuring affordability and value for money

Blended finance must remain affordable for the authority and end users.

Three checks that matter:

Affordability

Can the authority sustain payments over time?

Value for money

Are costs justified by outcomes and risk transfer?

Distributional impacts

Who pays and who benefits?

Blended finance for retrofit programmes

Common blended approach for retrofit:

TA funds programme design and procurement

First-loss/guarantee supports private lending into the programme

Performance verification supports results-based elements

Blended finance for EV charging

Typical barrier: utilization uncertainty (will chargers be used enough?)

Blended levers that can help:

Revenue support / minimum revenue guarantee (targeted)

Anchor demand (fleet commitments)

Concessional debt to extend tenor

TA to bundle sites and standardize contracts

Blended finance for heat networks

Heat networks often face:

- High capex
- Complex delivery risk
- Long paybacks

Blended solutions commonly include:

- TA for feasibility, customer strategy, procurement
- Public co-investment to de-risk early phases
- Guarantees or subordinated capital to crowd in senior lenders

Blended finance for nature-based solutions

Nature-based projects often struggle because revenue is indirect

Blended finance may involve

Upfront public funding for delivery

Results-based payments tied to verified outcomes

Aggregation of projects into portfolios

Linking to climate funds or thematic vehicles

Case Study: UK Infrastructure Bank blended finance

UKIB (and its successor structures in the UK landscape) has been designed to deploy debt/equity and issue guarantees to crowd in private investment

Why it's a blended finance lesson for LAs

Public balance sheet can provide guarantees and long tenor

Signals confidence and reduces perceived risk

Supports mobilization of private capital into priority infrastructure

Source: [HM Treasury](#)

Case Study: European municipal blended finance

ELENA (EIB) is a practical example of “TA as blending” - it funds project preparation so municipalities can bring bankable investments to market.

Why it matters

The main barrier is often early-stage capacity, not capital availability

TA enables aggregation, procurement readiness, and investor-grade documentation

Case Study: LA-led revolving retrofit fund

Example concept: public sector revolving funds that use repayments/savings to finance ongoing efficiency measures have been used in the UK context (e.g., Salix-type approaches).

Why it's useful for LAs

Builds a repeatable internal mechanism

Reduces dependence on one-off grants

Creates programme continuity and learning over time

Exercise: Identify where blended finance could unlock a stalled project

Pick one real project that is “stuck.” Then answer:

1. What is the exact barrier? (revenue risk, capex, early-stage costs, tenor?)
2. What would private investors likely say “no” to?
3. What is the smallest public intervention that could change the answer?

Output: one paragraph + one chosen instrument (with justification)

Exercise: Build a simple blended finance stack

Build a 4-layer stack for your chosen project:

- Layer 1 - Technical Assistance (what prep is missing?)
- Layer 2 - Public risk absorber (guarantee / first-loss / concessional)
- Layer 3 - Senior capital (banks/institutions)
- Layer 4 - Revenue contract (who pays, and why is it credible?)

Rule: each layer must solve a specific problem - no “nice-to-haves”

Section 3: Community Based Financing

Summary

Introduces community-based financing as a mechanism for mobilizing local capital and strengthening public legitimacy.

Learning Outcomes

- Assess whether a project is suitable for community participation
- Identify governance and compliance implications
- Structure community engagement without compromising fiscal discipline

Section 3 requires 5 learning hours: 2.5 hours of Guided Learning and 2.5 hours of Independent Learning.

What is community-based financing?

Community-based financing allows local residents, businesses, or institutions to invest directly in local net-zero projects.

It can involve:

- Community municipal investments (local bonds)
- Community shares in energy projects
- Local climate funds
- Cooperative ownership models

It is not “charity.” It is structured participation in infrastructure financing

Why community finance matters for net-zero

Community finance can:

- Unlock local capital that might not flow through traditional markets
- Improve project legitimacy and public acceptance
- Reduce opposition to infrastructure development
- Keep economic value circulating locally

For some projects, social licence is as important as financial return

The role of public trust and local legitimacy

Projects fail as often from mistrust as from lack of funding. Community participation can:

Increase transparency by allowing residents to see where funds go and how returns are generated

Reduce planning objections because investors become local stakeholders

Strengthen democratic accountability through clearer reporting and governance

Improve long-term public support for infrastructure decisions

How community finance supports a just transition

A just transition requires that communities benefit from decarbonisation. Community-based models can:

Allow residents to participate financially in local decarbonisation projects

Retain economic value within the local area rather than exporting returns externally

Create pathways for local employment and supply chain participation

Provide structured mechanisms for reinvesting surpluses into community priorities.

Barriers to community financing

Community finance is not frictionless. Common challenges include:

- **Limited ticket sizes**, meaning large infrastructure projects require thousands of small investors to reach scale
- **Regulatory compliance requirements**, such as financial promotion rules, prospectus obligations, and platform oversight
- **Ongoing reporting and investor communications**, which increase administrative burden on the authority or issuer
- **Managing expectations around risk and return**, particularly where projects have long payback periods
- **Liquidity constraints**, as community investments are often long-term and not easily traded

Opportunities for local authorities

Local Authorities can strengthen community finance by:

Acting as a credible issuer with established governance and repayment mechanisms

Providing visibility of future project pipelines to build investor confidence

Structuring projects clearly so residents understand risk and return

Bundling smaller projects into a portfolio to reduce risk concentration

Offering anchor commitments that signal seriousness without overexposing public funds

Community municipal bonds

Community Municipal Investments (CMI) allow residents to lend directly to their local authority.

Typically structured with:

- A fixed interest rate and defined maturity
- A low minimum investment threshold to encourage broad participation
- Clear, climate-linked use-of-proceeds statements
- Repayment backed by the authority's general revenues

Source: [West Berkshire 2020 issuance](#)

Community shares

Community shares are withdrawable share capital issued by cooperatives or community benefit societies. Often used in community energy projects.

Key features:

- Investors become members
- Returns are usually modest and capped
- Capital supports defined local projects
- Democratic governance structure

Crowdfunding platforms

Crowdfunding enables projects to raise capital from a broad pool of retail investors.

Characteristics:

- Online platforms
- Transparent project descriptions
- Defined risk disclosures
- Fixed or variable returns

Local climate investment funds

A local climate fund can pool community capital across multiple projects.

This structure:

- Diversifies risk across a portfolio rather than concentrating exposure in one asset
- Enables professional management of capital allocation and performance tracking
- Reduces reliance on individual project success
- Creates a repeatable financing platform rather than one-off fundraising

Key design question: Who governs the fund, and how are investment decisions made?

Cooperative ownership models

In cooperative models:

- Members collectively own the asset
- Governance is democratic
- Surpluses are distributed or reinvested
- Returns are typically modest but stable

Source: [Community Energy England](#)

Revenue-sharing models

Revenue-sharing can align interests without requiring full community ownership.

Possible structures include:

- Allocating a defined percentage of project revenues to a local community fund
- Providing discounted energy tariffs to participating households
- Distributing annual payments linked to project performance
- Establishing community benefit funds for local priorities

Revenue-sharing reduces governance complexity but may limit investor control

LA as issuer

When acting as issuer, the authority must manage both financial and reputational exposure.

Key considerations:

- Clear articulation of how proceeds will be used and tracked
- Transparent reporting to retail investors
- Robust legal compliance under financial regulations
- Defined repayment mechanisms tied to credible revenue streams.

Issuing directly to residents increases scrutiny - governance must be audit-ready.

LA as partner with community energy groups

Authorities can:

Provide land or rooftop access

Offer anchor offtake agreements

Assist with planning permissions

Support aggregation across sites

LA as enabler (policy, planning, convening)

An enabling authority can:

Convene stakeholders

Provide visibility of project pipeline

Clarify planning conditions

Offer technical support resources

LA as guarantor or anchor customer

Authorities may strengthen community finance by:

- Acting as anchor customer for energy offtake
- Offering partial guarantees (where appropriate)
- Providing minimum revenue commitments

This must be structured carefully to avoid unintended fiscal exposure

Case Study: West Berkshire Community Municipal Investment

In 2020, West Berkshire Council launched a Community Municipal Investment to fund solar projects.

Key features:

- Raised funds directly from residents for solar projects
- Offered fixed returns over a defined term
- Used a regulated crowdfunding platform to manage compliance and investor onboarding
- Demonstrated strong public engagement and visibility

Source: [West Berkshire 2020 issuance](#)

Case Study: Bristol City Leap community engagement

Bristol City Leap includes structured community engagement alongside private investment.

Key features:

- Long-term city partnership
- Multi-asset decarbonisation strategy
- Commitment to local benefits and transparency

Source: [Bristol City Leap](#)

Case Study: Community-owned solar farms

Across the UK, community energy groups have financed and operated solar farms through cooperative structures.

Community-owned solar projects typically:

- Raise member capital through cooperative share offers
- Operate under democratic governance structures
- Offer modest but predictable returns
- Reinvest surpluses into community initiatives

Important note: These models work best where projects are understandable, visible, and locally relevant.

Exercise: Identify a project suitable for community financing

Choose a real project in your authority and assess:

1. Would community participation strengthen legitimacy?
2. Is the project understandable to retail investors?
3. Is the revenue stream clear and predictable?
4. What minimum ticket size would make participation inclusive?

Output: 3-minute group discussion summary.

Exercise: Draft a community investor value proposition

Write four clear statements answering

- Why should a resident invest?
- What risk are they taking?
- How is their capital protected?
- What local impact will their investment create?

Section 4: Green Bonds & Climate-Themed Funds

Summary

Introduces green bonds as labelled debt instruments requiring structured use-of-proceeds and impact reporting.

Learning Outcomes

- Evaluate whether green bond issuance is appropriate for a given project
- Understand framework, reporting, and verification requirements
- Match project characteristics to suitable climate fund mandates

Section 4 requires 5 learning hours: 2.5 hours of Guided Learning and 2.5 hours of Independent Learning.

What are green bonds

A green bond is a debt instrument where proceeds are committed to environmentally beneficial projects.

Structurally, it is still a bond:

- Fixed or floating coupon
- Defined maturity
- Credit risk tied to the issuer

The “green” element lies in how proceeds are used and reported. Green bonds do not change repayment risk; they change transparency and allocation.

What makes a bond “green”

A bond is considered green when:

- Proceeds are allocated to eligible environmental projects
- Use-of-proceeds categories are clearly defined
- Allocation is tracked and reported transparently
- External review or second-party opinion is obtained

Most issuances align with ICMA Green Bond Principles.

Source: [ICMA Group](#)

Overview of climate-themed funds

Climate-themed funds pool capital to invest in environmentally aligned assets. Funds can be public, private, or blended.

They may invest in:

- Renewable energy infrastructure
- Energy efficiency projects
- Heat networks
- Transport decarbonisation
- Nature-based solutions

Key difference from bonds: funds are pooled investment vehicles, not single-issuer debt

Why institutional investors prefer labelled instruments

Institutional investors increasingly require:

1. ESG alignment for portfolio mandates
2. Clear environmental impact reporting
3. Reputational safeguards
4. Standardized disclosure

Green bonds reduce due diligence friction because frameworks are recognized globally. Labelling lowers information asymmetry.

The role of taxonomies and standards (ICMA, EU, UK)

Taxonomies define what qualifies as environmentally sustainable. Relevant frameworks include:

1. ICMA Green Bond Principles
2. EU Taxonomy for Sustainable Activities
3. UK Green Finance Strategy frameworks

Taxonomies reduce greenwashing risk by standardizing eligibility criteria.

Barriers to green bond issuance

Green bonds introduce additional complexity beyond standard borrowing.

Challenges include:

- Upfront framework development costs
- External review and verification expenses
- Ongoing allocation and impact reporting
- Internal coordination across finance and sustainability teams
- Minimum issuance size to attract institutional investors

Opportunities for local authorities

Green bonds can offer:

Access to dedicated ESG investor pools

Potential pricing benefits (in some market conditions)

Enhanced transparency and climate credibility

Clear signalling of net-zero commitment

Steps in issuing a green bond

Issuing a green bond typically involves:

1. Defining eligible project categories
2. Developing a Green Finance Framework
3. Obtaining external review
4. Structuring and marketing the bond
5. Allocating proceeds and reporting impact

Use-of-proceeds requirements

Proceeds must be:

Ring-fenced or tracked internally

Allocated to clearly defined eligible expenditures

Unallocated amounts temporarily managed under defined rules

External review and verification

Most green bonds obtain:

- Second-party opinion (SPO)
- External verification of alignment
- Ongoing assurance of reporting

This reduces greenwashing risk and improves credibility. External review is market expectation, not legal requirement.

Reporting and monitoring requirements

Issuers are expected to provide:

Annual allocation reporting

Impact metrics (e.g., emissions reduced, MW installed)

Clear methodology disclosure

Impact reporting is often more resource-intensive than financial reporting

The role of taxonomies and standards (ICMA, EU, UK)

Green bonds may involve:

- Framework drafting costs
- External review fees
- Legal and advisory expenses
- Ongoing reporting costs

Cost management strategies include:

- Pooling issuance
- Standardizing frameworks
- Aggregating projects
- Leveraging existing disclosure systems

LA green bonds in the UK

Several UK local authorities have issued labelled bonds or explored sustainable finance frameworks:

Common features

- Use-of-proceeds linked to energy efficiency or renewable energy
- Alignment with ICMA principles
- Integration into broader capital programmes

Issuance must align with prudential borrowing rules.

Pooled municipal green bonds

Pooling allows multiple authorities to issue collectively. Pooling addresses sale constraints faced by smaller authorities.

Benefits include:

- Larger issuance size (attracting institutional buyers)
- Reduced per-authority transaction cost
- Shared framework and verification process
- Diversified credit exposure for investors

Using green bonds for retrofit

Green bonds are well suited for:

- Large-scale retrofit programmes
- Public building energy upgrades
- Heat decarbonisation initiatives

They are most effective when projects are already investment-ready. Green bonds finance delivery, not early-stage development.

Using green bonds for renewable energy

Eligible uses may include:

- Solar installations
- Wind projects
- District heating
- Grid upgrades linked to decarbonisation

Revenue-backed projects
improve investor
confidence

Using green bonds for transport decarbonisation

Transport-related applications include:

- EV charging infrastructure
- Public fleet electrification
- Low-emission public transport
- Active travel infrastructure

Overview of UK climate investment funds

The UK climate finance landscape includes several institutional actors with distinct mandates. Key examples:

- **National Wealth Fund (formerly UK Infrastructure Bank)** – provides debt, equity, and guarantees to crowd in private investment into infrastructure and net-zero projects
- **Salix Finance** – delivers government-backed loans and grants for public sector energy efficiency and decarbonisation
- **Local Government Pension Scheme (LGPS) pools** – institutional investors with growing climate allocation mandates
- **Private infrastructure funds with ESG mandates** – invest in renewable energy, heat networks, EV infrastructure, and retrofit platforms

International climate funds relevant to LAs

Beyond domestic sources, local authorities may access international climate capital. Relevant examples include:

- European Investment Bank facilities
- Multilateral climate funds
- Development finance institutions

Access may require alignment with specific eligibility and reporting frameworks

How to access climate-themed funds

Access typically requires:

Bankable project pipeline

Clear governance structure

Robust financial modelling

Defined environmental impact metrics

Compliance with eligibility criteria

Eligibility criteria and application processes

Common eligibility criteria include:

Alignment with environmental taxonomy

Defined minimum project size

Creditworthiness of counterparty

Environmental and social safeguards

Clear monitoring frameworks

Municipal green bond case study (Europe)

City of Gothenburg (Sweden) issued one of the earliest municipal green bonds. Key elements:

- Developed a structured Green Bond Framework aligned with international principles
- Defined eligible categories (renewables, clean transport, energy efficiency)
- Issued multiple green bonds as part of ongoing capital programme — not one-off issuance
- Publishes annual allocation and impact reports with quantified environmental outcomes

What Gothenburg teaches Local Authorities

Lessons for UK Local Authorities:

- Green issuance works best when integrated into long-term borrowing strategy
- Credibility is built through consistent reporting, not marketing language
- Framework development is a governance exercise, not just a sustainability exercise
- Scale improves investor confidence and pricing stability

Climate-fund-supported LA project

Illustrative example: EIB-supported municipal energy efficiency programmes across European cities.

Typical characteristics:

- Long-term lending aligned with infrastructure lifespan
- Technical assistance to structure procurement and performance frameworks
- Strong monitoring and reporting requirements
- Blended structure combining municipal borrowing with institutional lending

Institutional capital flows where governance, documentation, and delivery readiness are strong.

Exercise: Identify a project suitable for green bond financing

Select one project and assess:

1. Is the project capital-intensive and clearly defined?
2. Are environmental benefits measurable?
3. Is it delivery-ready within borrowing timelines?
4. Can proceeds be clearly ring-fenced?

If the answer to any is “no,” green bond issuance may not be appropriate.

Exercise: Draft a use-of-proceeds statement

Draft a 4–5 sentence statement that includes:

- Eligible project category
- Environmental objective
- Allocation methodology
- Reporting commitment

If the answer to any is “no,” green bond issuance may not be appropriate.

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Document Version Control

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