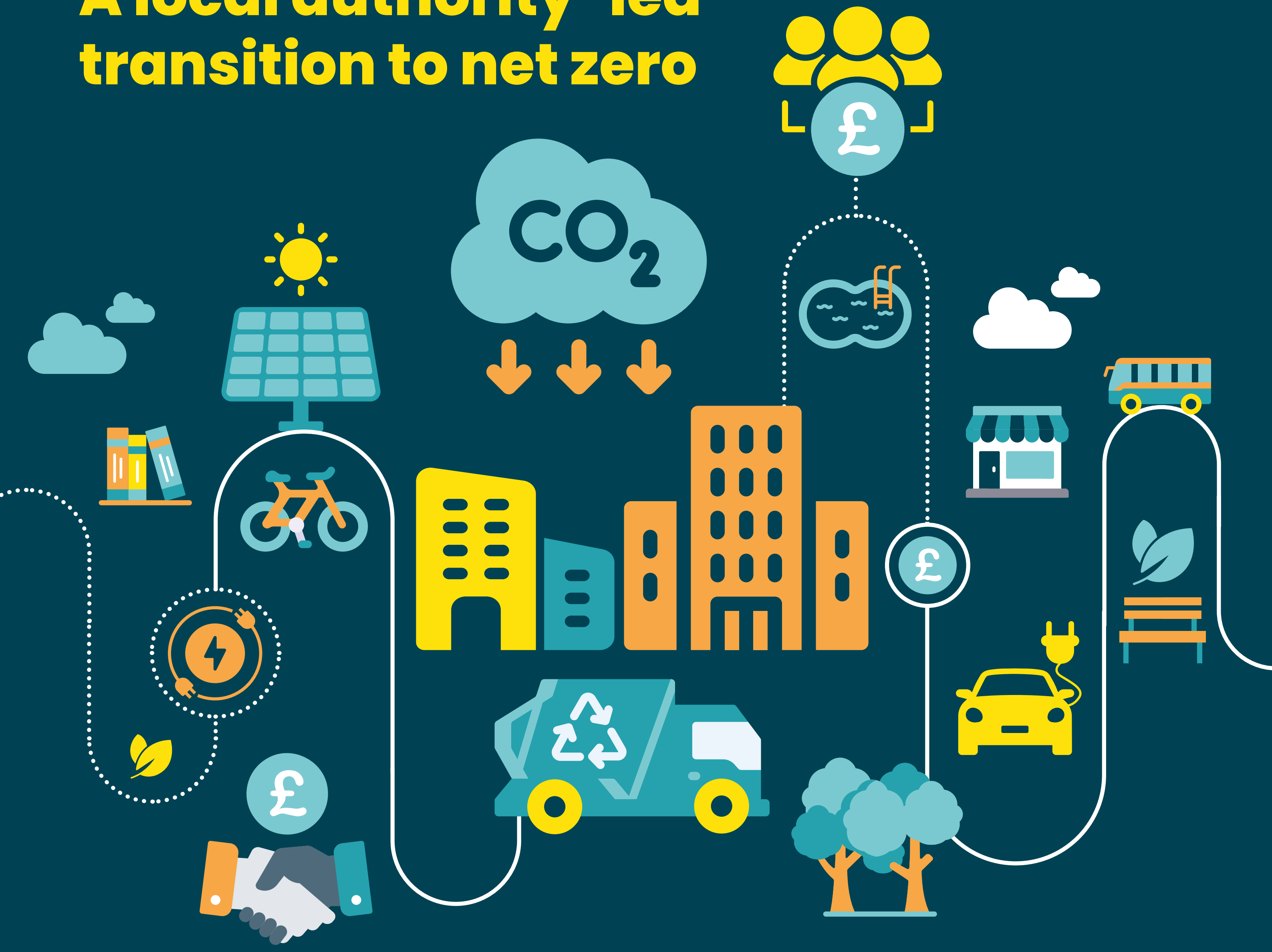
Wales Centre for Public Policy
Canolfan Polisi Cyhoeddus Cymru

Policy Briefing
July 2024

A local authority-led transition to net zero



Introduction

The Welsh Local Government Association (WLGA) is coordinating a climate transition and recovery support programme to help local authorities meet the Welsh Government's ambition for a net zero Welsh public sector by 2030.

However, there are significant budgetary pressures on both Welsh local authorities and the Welsh Government, a key source of funding for local authority net zero projects. Consequently, there is a need to consider how local authorities prioritise their climate actions within financial constraints and explore different sources of funding, including from the private sector.

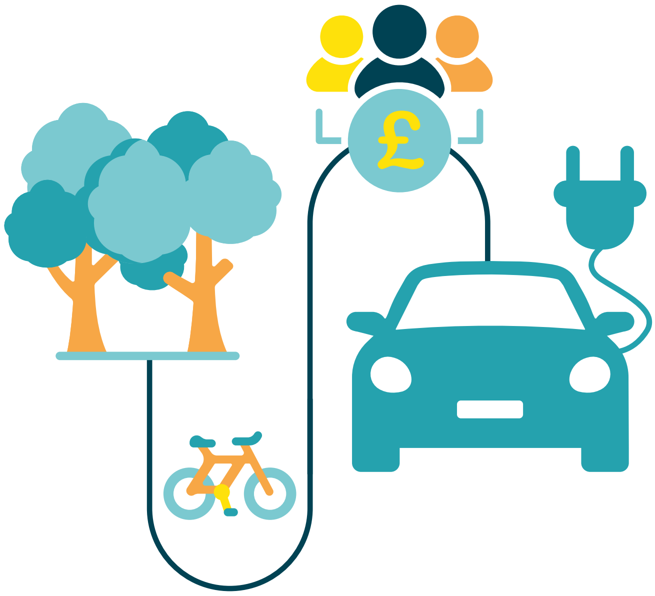
WLGA asked WCPP to review the available evidence on policies and approaches pursued by local authorities in other countries and regions, considering the lessons for Wales for a local authority-led transition to net zero in terms of:

i) The prioritisation of climate change interventions; and

ii) Private-sector financing.

Local authority influence on reducing emissions

Local authorities influence emissions reductions from their own services and activities and can also impact emissions from residents and businesses within their area. There is a debate on whether local authorities should prioritise reducing their **municipal emissions** or focus on influencing reductions in **total community emissions**. While the Welsh Government acknowledges the important influencing role of local authorities, the established strategic direction is for local authorities to focus on reducing municipal emissions (from their own activities) to meet the 2030 ambition for a net zero Welsh public sector. Decarbonising the public sector



will require significant capital investment, especially in areas such as buildings and transport; and financing this will likely be a significant barrier (UK CCC, 2020).

Estimates suggest that municipal emissions constitute between 2% and 9% of total emissions (see UK CCC, 2020; Edinburgh Climate Change Institute, 2021). Given that local authority activities comprise only a relatively small proportion of total emissions, and that reducing these will require significant capital investment, it may be that greater reductions in total community emissions could be achieved by focusing on how they can influence residents and businesses to reduce their emissions.

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Prioritising local climate action

To determine which climate actions to prioritise, local authorities first need to understand the emission profiles of their areas. Our full report presents five case studies from the UK and Canada on how other local governments have sought to understand their emission sources and prioritise potential actions.

The case studies highlight that, based on current modelling, it is highly unlikely that total community emissions in various contexts will reach net zero by 2050. Political decisions will therefore need to be made about which actions should be prioritised and when, with a need to be responsive and adaptive in the future.

From our reviews of case studies and the wider literature, we found four main criteria that could be used to prioritise local climate actions:

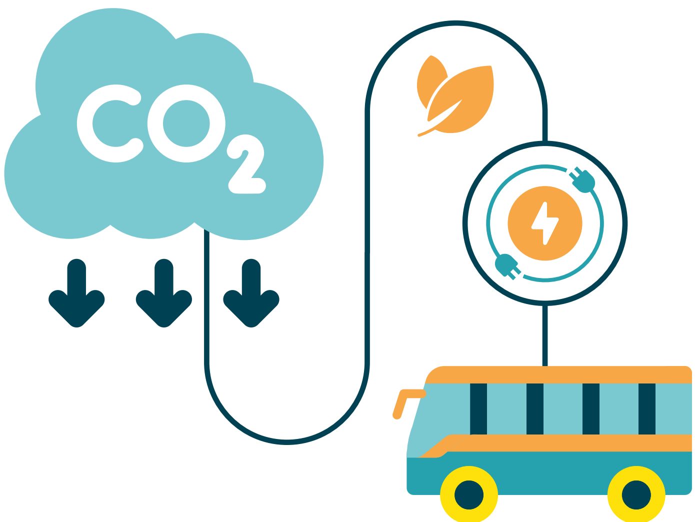
- Potential emissions reductions;
- Cost (to both local government and private stakeholders);
- Local authority control and influence; and
- Ease of implementation.

Even where local authorities can directly control emissions, cost or implementation barriers may arise. Therefore, it might be more effective to prioritise other interventions, especially for projects requiring significant capital investment.

Some local authorities are developing emissions inventories to capture total community emissions in their area. These inventories can help authorities develop pathways considering multiple scenarios and levels of ambition towards net zero, provide clear and consistent data on progress and policy success, and signal to stakeholders their priorities and commitment to achieving net zero. This approach may help attract the alternative forms of investment needed to finance many interventions required for local authorities to reach net zero.

Welsh local authorities already collect and report data on municipal emissions to the Welsh Government, but few local authorities across the UK collect and report data on total community emissions (Edinburgh Climate Change Institute, 2021). There are questions about whether reducing municipal emissions should be considered a separate challenge from reducing total community emissions. Some local governments, both in the UK and overseas, view the challenges as interconnected and have developed climate strategies that see reducing municipal emissions as one aspect within the overarching goal of achieving net zero community emissions. Others have chosen to tackle the challenges separately, developing distinct climate action plans for both municipal emissions and total community emissions.

Given that Wales is the only UK nation with a specific ambition for a net zero public sector (by 2030) and a commitment from both the Welsh Government and Welsh local authorities to meet this, developing separate evidence-informed climate action plans might be the most practical approach. However, it will be important to avoid duplication and maximise the interlinkages across the two areas.



Alternative forms of financing local net zero interventions

Both public bodies and private organisations have developed guidance to support local authorities in engaging with traditional and new forms of financing. Given the timescales involved in the transition to net zero and the urgent need for investment, local authorities will need to select interventions and find financing options that are feasible in the short term. This will likely depend on internal capacity and resources.

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Local authorities face two primary barriers in utilising alternative sources of finance to fund the net zero transition: i) the fragmentation of the funding landscape; and ii) the limited technical expertise within local authorities (Environmental Audit Committee, 2023). Successfully encouraging increased private investment in local authority projects will require capacity building to develop knowledge about new financing mechanisms and resources to provide financial and legal advice on potential partnerships.

To secure private investment, projects need a commercially viable revenue stream that can provide a sufficient return on investment; otherwise, there may be reluctance to invest, and grant funding may be required instead (Innovate UK and PWC, 2023). Many local authorities have not explored the range of potential financing options, with the vast majority of infrastructure funding (78%) secured from the Public Works Loans Board, whose capacity to lend is becoming increasingly limited (Innovate UK and PWC, 2023). Other guidance highlights the need to move from project-by-project approaches to a systematic programme of investment, creating policy certainty and coordination to reassure investors (Tingey and Webb, 2020).

Pension funds are frequently cited as a potential source of capital for low-risk and long-term projects; however, there has been some pushback from the pension sector. Questions arise about whether supporting government policy objectives aligns with their core mission of building retirement funds for their members and concerns about Private Finance Initiative style investment following the relative failure of the policy in the 2000s (Gordon, 2023).

Moreover, private investors may be reluctant to invest due to a lack of data and the small-scale nature of many projects. Most existing partnerships between private investors and local government have taken place at a combined authority level in England (see below for examples), benefiting from economies of scale and a better developed pipeline of potential projects. In Wales, local authorities may need to collaborate on similar projects to develop the commercial viability needed to attract investors. Corporate joint committes could potentially support collaboration.

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Several guides cover potential types of financing for local authorities, including:

- **Net Zero Go**
- **Financing Local Net Zero Projects: A Guide for Local Authorities**
- **Unlock Private Investment for Net Zero – A Practical Guide for Local Authorities**

These guides provide insights into barriers to implementation, capacity development, and an overview of different potential sources of funding.

Capacity building and piloting

Several organisations support local authority capacity to encourage increased private investment.

One of these is the UK Infrastructure Bank's (UKIB's) Local Advisory Function, which has £4 billion in capital available to local authorities across all four UK nations and provides impartial advice alongside financing options. The UKIB has committed to building its own expertise in three areas where local authorities have expressed significant interest: retrofit, heat networks and transport. However, there appears to have been limited uptake of this scheme in Wales.

In England, UK Government-funded Net Zero Hubs (formerly local energy hubs) support all areas to reach net zero, aiming to attract commercial investment, raise awareness, and facilitate knowledge transfer with local authorities. Initially set up to provide advice and technical support for community energy projects to access funding from the Rural Community Energy Fund, these hubs have continued to support local authorities to attract investment for net zero projects even after the original funding ended. The renaming reflects a shift from sectoral decarbonisation to a place-based approach, now providing support for projects including retrofit, transport and public sector decarbonisation.

Retaining a sectoral approach to decarbonisation could increase the commercial viability of projects. For example, by focusing on one area such as heat networks across all areas, rather than a range of different projects in multiple areas. Whether a place-based or sectoral approach is preferred in Wales, a centralised knowledge transfer and support scheme could help improve local authority capacity.

A centralised knowledge transfer and support scheme could help improve local authority capacity

As mentioned above, many existing partnerships in green financing in England have occurred at a combined authority level. The London Climate Finance Facility (LCFF), established in 2023 by the Mayor of London in collaboration with the Green Finance Institute (GFI), allows organisations to bid for loans ranging from £1m to £75m, with flexible loan terms and lower rates than the Public Works Investment Board. Importantly, the LCFF includes a single project support resource to help organisations access private investment and develop investors' knowledge of climate-related projects, increasing the availability of finance.

The [Greater Manchester Combined Authority] has also partnered with GFI to pilot financial products for home decarbonisation, potentially serving as a blueprint for other local authorities. This partnership has established several solutions for landlords and homeowners, offering sources of private and blended capital, including:

- Integrated retrofit finance, aimed at incentivising retrofits for residents without large cash reserves;
- A green mortgage campaign;
- Local climate bonds (see below);
- Green rental agreements offering a 'warm rent' covering rent and energy bills; and
- Property linked finance, where repayments for energy efficiency measures are tied to the property and transferred to new owners upon sale.

This partnership includes types of financing not yet implemented in the UK, meaning there is no evidence of their feasibility or effectiveness. However, it highlights the potential for innovative measures developed in partnership with organisations offering expert advice to local authorities.

Local climate bonds

Local climate bonds, also known as community municipal investments, involve smaller investments tied to specific projects within the local authority area. Councils generate funds directly from the public, who can invest a minimum of £5 and receive a meaningful return on their investment. This approach not only engages the community in funding climate projects but also offers rates below the equivalent Public Works Loan Board rate at issuance. Several UK councils have issued local climate bonds to fund projects including tree planting, electric vehicle charging points, energy efficiency improvements, active travel enhancements, and fleet replacement.

The funds raised have so far been small, but as it is an emerging mechanism, future issuances could be larger. Given the collaborative approach and economic and environmental co-benefits, this method could help Welsh local authorities achieve multiple Well-Being Goals.

Carbon offsetting

In Wales, all carbon offsetting within the 2021-2025 carbon budget period must occur through domestic action, meaning it must be sourced from within Wales. The offset limit for the next period (2026-2030) will be set no later than 2025, and the Welsh Government has indicated that any offsetting will likely be used only in a limited way (Welsh Government, 2021). At the UK level, the Parliamentary Office of Science and Technology (POST) has developed a briefing note highlighting challenges related to international offset schemes (Wentworth and Hooker, 2024). While local authorities are interested in understanding carbon offsetting schemes that meet the domestic requirements set out by the Welsh Government, competing demands for land in Wales for sequestration, agriculture, and other uses may make it difficult to secure significant emissions reductions through this method.

Conclusion

When developing strategies and delivery plans for tackling the climate emergency, local authorities will need to determine the balance between prioritising reductions in municipal emissions from their operations and using their influence to reduce total community emissions by enabling behaviour change in their communities. A clear strategy can also facilitate investment by demonstrating that local authorities have a well-defined, long-term set of commitments. Criteria to consider in choosing what to prioritise include projected emissions reductions, ease of implementation, local authority influence, and costs.

In Wales, there is potential for local authorities to create pooled opportunities for private investment across several local authority areas

While some local authorities are addressing municipal emissions as one aspect of achieving net zero total community emissions, it may be more sensible in the Welsh context for local authorities to develop separate climate plans for reducing emissions in areas where they have direct control and where they can influence emissions reductions in their communities. Financing local climate action is a significant challenge. Local authorities overwhelmingly rely on traditional forms of finance for capital investment, particularly the Public Works Loan Board. There are also barriers to attracting investment related to policy direction, data and local government capacity.

Some forms of private sector involvement are now relatively widespread, but they tend to be on a small scale or at a large scale with significant amounts of public finance involved. In Wales, there is potential for local authorities to create pooled opportunities for private investment across several local authority areas. Using existing structures and a shared website similar to Sell2Wales could facilitate this. Collaboration with the Green Finance Institute could also allow Welsh local authorities to trial local climate bonds.

Pooling opportunities could support a sectoral approach to decarbonisation, with coordinated actions across a range of geographies allowing access to economies of scale and finance opportunities. The place-based nature of local authorities may make this challenging, but regional forums such as corporate joint committees could potentially help with coordination and information sharing.

In practice, it can be difficult for climate interventions to achieve their projected emissions reductions. Therefore, it is crucial that policies developed, prioritised, financed and implemented at a local level are evaluated rigorously, ideally with consistent and comparable measures to share learning across Wales. Both the WLGA and the Welsh Government could facilitate this learning.

To manage the inherent complexity involved in progressing towards net zero, it is essential that support for local authorities to develop their capacity continues. Pooled resources to help authorities access, manage and confidently use finance options, such as dedicated and centralised knowledge transfer and support schemes, can assist with this. Sharing best practices between authorities will be a crucial component of successful decarbonisation.

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Find out more

For the full report see: Notman, G., Johnson, E., Price, J., and Tilley, H. (2024). **A local authority-led transition to net zero: Lessons for Wales from other countries and regions.** Wales Centre for Public Policy.

About the Wales Centre for Public Policy

Here at the Centre, we collaborate with leading policy experts to provide ministers, the civil service and Welsh public services with high quality evidence and independent advice that helps them to improve policy decisions and outcomes.

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