INFRASTRUCTURE BANK

How Can Finance Accelerate Home Retrofit?

EELGA Net Zero & Climate Resilience Summit

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18th July 2024

Outline

- The home retrofit challenge
- Introduction to the UK Infrastructure Bank
- UKIB local authority offer
- Funding vs Finance
- Case studies
- Workshop questions
- Workshop dos and don’ts

Home Retrofit Challenge

- Scale
- Capital intensive
- Confused national support
- Fractured supply chain
- Household expectations
- Conflicting priorities

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Introduction to the Bank

Core Objectives & Investment Principles

[1] The bank has four investment principles (IPs) and the fourth relates to crowding in significant private capital over time relating to our private sector investments. Our Strategic Plan sets out how we will meet these objectives and principles (UKIB-Strategy-Update-Private-Sector-Investments.pdf)

The Bank's core objectives are to:

1. **Help tackle climate change**, particularly meeting our net zero emissions target by 2050;
2. **Support regional and local economic growth** through better connectivity, opportunities for new jobs and higher productivity.

The UK Infrastructure Bank has three Investment Principles[1] it will deliver against when supporting local authorities. These are:

1. Supporting the Bank's objectives to drive regional and local economic growth or support tackling climate change;
2. Investing in infrastructure assets or networks, or in new infrastructure technology;
3. Delivering a positive financial return, in line with the Bank's financial framework.

£22bn of Infrastructure Finance

Our model:

Five priority sectors:

- Clean energy
- Transport
- Waste
- Digital
- Water

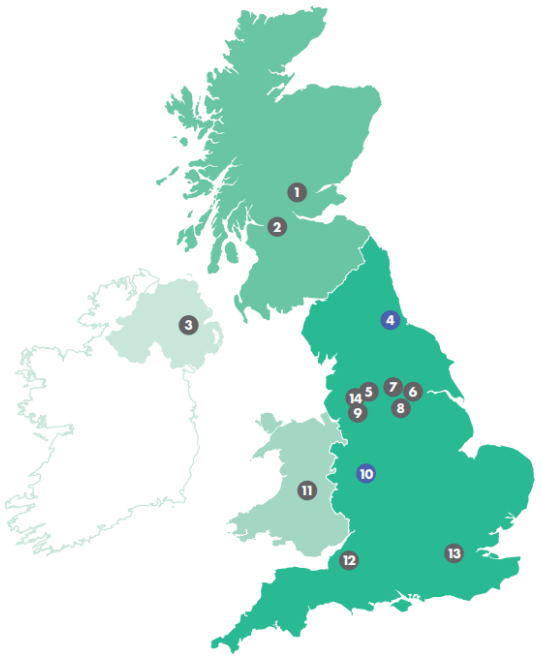
Local Authority offer

UKIB Local Authority Sector Focus

- **Retrofit** (e.g. social housing, public sector estate, place based)
- **Heat networks** (especially strategic citywide networks)
- **Transport**
  - Zero emission vehicle infrastructure (e.g. ZEBs, EV charging, fleet)
  - Mass transit and other public transport
- **Mixed infrastructure**
  - Taking a place-based approach (e.g. town/city regeneration)
  - Nature based solutions/flood defences
  - Digital connectivity.

Local Authority Advisory Service

UKIB local authority engagements



1 **Perth and Kinross Council**
Eco-Innovation Park

2 **Glasgow City Council**
Mass Transit

3 **Belfast City Council**
Heat Networks

4 **Tees Valley Combined Authority**
Lending for Port Infrastructure

5 **Bradford City Council**
Station Development and Regional Economic Growth

6 **West Yorkshire Combined Authority**
Mass Transit

7 **Leeds City Council**
Retrofit

8 **South Yorkshire Mayoral Combined Authority**
Zero Emission Buses and Depots

9 **Greater Manchester Combined Authority**
Zero Emission Buses and Heat Networks

10 **West Midlands Combined Authority**
Lending (Bus Network) and Advisory (Retrofit)

11 **Transport for Wales**
Zero Emission Buses

12 **Bristol City Council**
Low Carbon Partnering and Flood Defence

13 **London Borough of Camden Council**
Building Decarbonisation

14 **Transport for the North**
Mass Transit

● Advisory ● Lending

- Short, sharp advisory engagements;
- Can cover commercial, financial and funding aspects of projects;
- Impartial and not charged;
- Can combine advice with lending where required/appropriate;
- Develop replicable models based on lessons learned from across the UK.

Local Authority Lending

Three key loan features:

1. **Flexibility**: Up to 50-year loans designed to meet the needs of the project e.g. staggered drawdowns, fixed rates, phased interest and principal repayments to reflect cashflow profiles;
2. **Validation**: proportionate review process which provides an independent view of a project's commercial viability;
3. **Efficiency**: low-cost finance (gilts + 40bps) for infrastructure projects (40bps lower than PWLB certainty rate) with no arrangement or commitment fees. Minimum loan size of £5m.

Examples of current lending discussions with local authorities:	
Rolling stock	Heat networks – new and extensions
Energy efficiency fund	Flood defences
Building decarbonisation fund	Zero emission fleet
Solar farm	Wind farm

Funding vs Finance & applicability to home retrofit

Features of funding and finance

Funding

- Grants – no expectation of a return
- Designed to solve problems that the market can't
- Examples:
  - Any household in fuel poverty
  - New technologies (heat pumps)
- Expensive and need to protect the public purse

Finance

- Loans/service agreements – need to generate a return*
- Designed to work with market forces to overcome capital barrier
- Examples:
  - 0% interest new windows
  - Energisprong
  - Green mortgages
- Returns, but savings?

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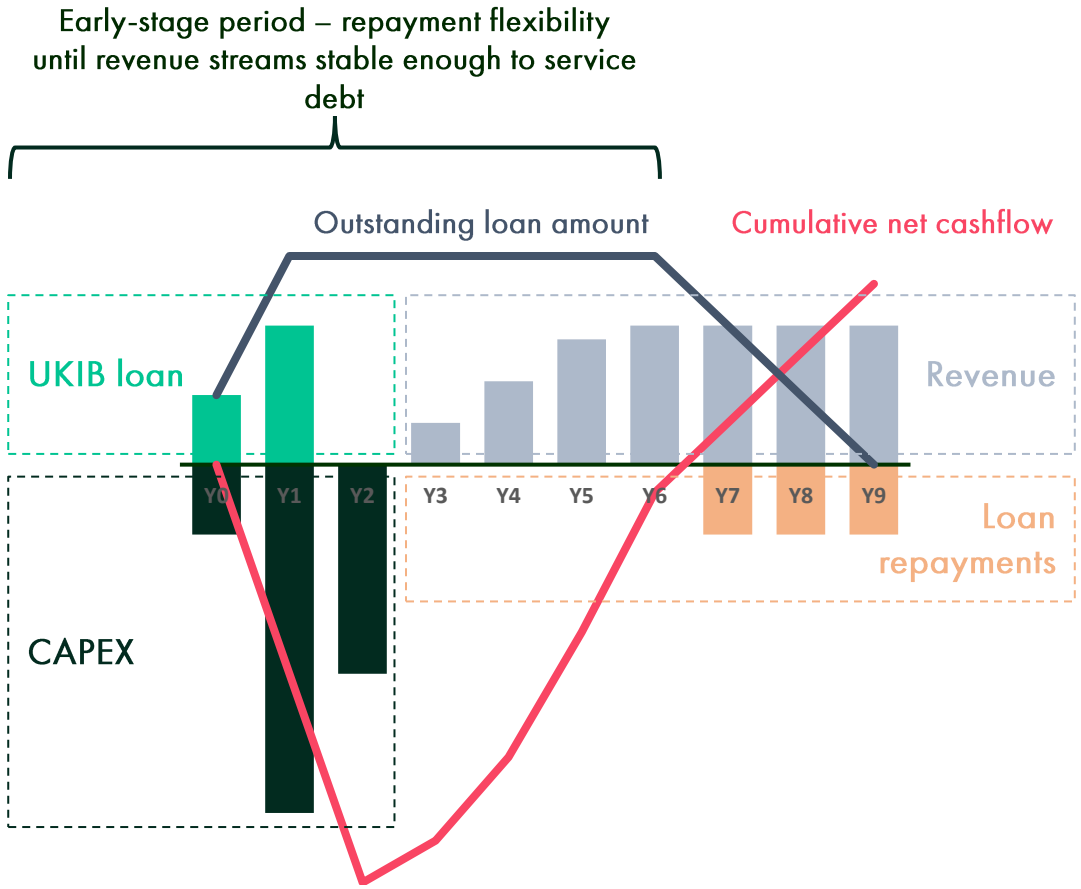
UKIB approach – early-stage debt facility



An early-stage debt facility could achieve its objectives in helping create a sustainable, long-term debt market for the Heat Networks asset class whilst overcoming the key barriers:

1. **Construction/ ramp-up risk**: Bank facility would come in prior to revenue streams coming online
2. **Connection charges:** Provision of debt can reduce reliance on up-front connection charges to fund capex, and allow developers to offer more payment flexibility to consumers
3. **Project economics:** Senior debt is a cheaper product than equity, and therefore could help reduce the overall funding costs of the project

Case Studies

Case study: Orkney Islands Council

The advisory engagement considered how OIC could finance and deliver their domestic retrofit ambitions as part of their overall energy efficiency strategy and wider net zero investments.

This including discussion on the following delivery models:

Retrofit fund	Aggregation	OSS	Private Partnership	Joint grant funding
Use low-cost finance from UKIB to support a fund that can be on-lent to smaller projects, enabling wider access to low-cost finance and incentivise delivery at scale.	*Aggregate more commercially viable projects (e.g., renewable energy generation) with the spend-to-save and non-revenue generating measures (e.g., fabric improvements) to create a package of more investable opportunities.*	*Convene owner-occupied and private rented retrofit works, providing end-to-end support throughout the customer journey, alongside finance options. Increases consumer confidence in retrofit and provides a consistent level of demand for the local supply chain.*	*Establish a delivery vehicle to offer a OSS retrofit solution to the able-to-pay market and provide consumer finance options to homeowners.*	*Top up grant funding from the Social Housing Decarbonisation Fund to upgrade social housing.*

Orkney's key takeaway was to further develop and finalise their LHEES and use this to consider what an aggregated package of projects and retrofit measures would consist of.

Case study: Rossendale Borough Council

Rossendale is an economically deprived rural community in Lancashire with traditional stone terraced housing and strong sense of community.

Challenge

- Expensive to heat homes
- Expensive and technically difficult to insulate homes

Solution

- Shared ambient loop heat network with heat pumps in each home
- Create a smart local energy system (SLES) by adding solar PV, storage and EV charging to create revenues

Financial proposal

- Debt financing to construct SLES, owned by local SPV
- Local residents pay a long-term service charge to the SPV to connect their homes
- Heat use is metered and billed
- Fairer Warmth app used to influence, engage and support residents to make savings

Case study: Leeds City Council

Leeds has a strong track record of delivering area-based multi-tenure retrofit schemes in deprived and fuel poor communities. However, these rely on grants.

Leeds worked with private sector partners Lloyds, Octopus and Arup, to consider how a hyperlocal one stop shop (OSS) could stimulate retrofit in more affluent ‘able to pay’ communities.

Challenge

- Complex and fractured customer journey
- Capital barrier to retrofit improvements

Solution

- Create a OSS to hand-hold customers and smooth the customer journey
- Create financial products to make retrofit affordable

Outcome

- Need legislative change to Consumer Credit Act to shift risks from banks
- Loans alone won’t help with most expensive measures (i.e. solid wall insulation)
- WYCA now working on a fully integrated OSS proposal

Workshop

Discussion

Key questions that we will seek to address include:

1. What potential is there for blended finance solutions to stimulate community-wide initiatives?

2. Is there an appetite to work collaboratively across the EELGA area to build a larger scale and more attractive able to pay initiative?

3. How can UKIB support you to deliver your priorities?

4. What are the collaborative actions that you want to see?

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