The political economy of financing net-zero at local level

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Outline

- Aim and methods
- Global statecraft for blended finance and the evidence
- Reflections at national and municipal level in the UK
- Blended finance and net-zero neighbourhoods plan (UK)
- Contributions

Aim and methods

Research Transition:

- previous work on local austerity and finance…reformulation of RQ as ‘Financing local net-zero in austere times’ to…

Theory: Political economy (finance, privatisation), economic geography (market making out of nature)

Methods:

- Grounded research, using exploratory, iterative evaluation and inductive process
- Mixed methods: financial stats and qualitative data
- 29 interviews with finance and climate change experts in LAs and associated organisations

Global statecraft* & blended finance

‘TINA to private capital for financing net-zero’....

because financing needs are insurmountable for net-zero and beyond states’ capacity (Bracking 2018....)

But nature / net-zero projects are uncertain, high risk, involve unproven technologies (IFC 2018), thus require de-risking (Gabor and Sylla 2023)

Use Blended Finance approach to mobilise private finance (OECD 2018, World Bank 2020)...

Combine public & philanthropic funds to attract private fin into social & environmental projects

£1/$1 of public finance can mobilise 2-5 times private capital

(*) Global statecraft (Goddard 2019)

What is the evidence?

- The World Bank data (2020, p. 8): private sector contributed to 30% of the capital for new blended finance projects. Remaining 70% came from concessional loans from multilateral agencies, public sector and development finance institutions.
- OECD (2024) puts the estimate for private contribution to blended projects at 20%.
- Similar evidence can be found in Preira (2017) and Dempsey et al (2024).
- In the case of biodiversity, Dempsey and Suarez (2016) indicate that private financial flows to green projects are '…slivers of slivers of slivers. [They are]… small, marginal, and geographically constrained, with far more talk than investor walk'.

Reflections of this discourse in the UK

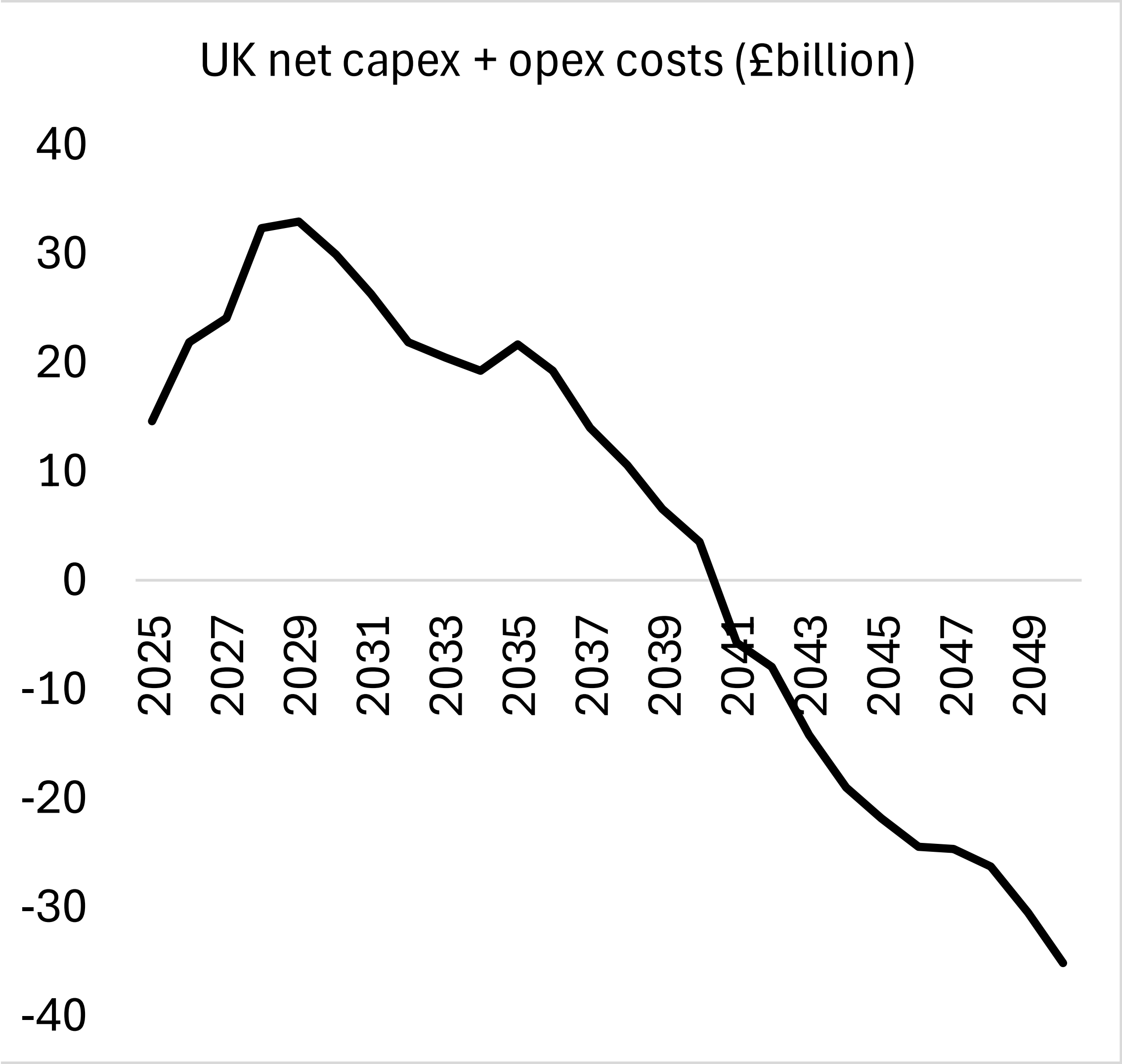
It is often claimed the scale of investments needed to fund net-zero investments is beyond the UK government's capacity

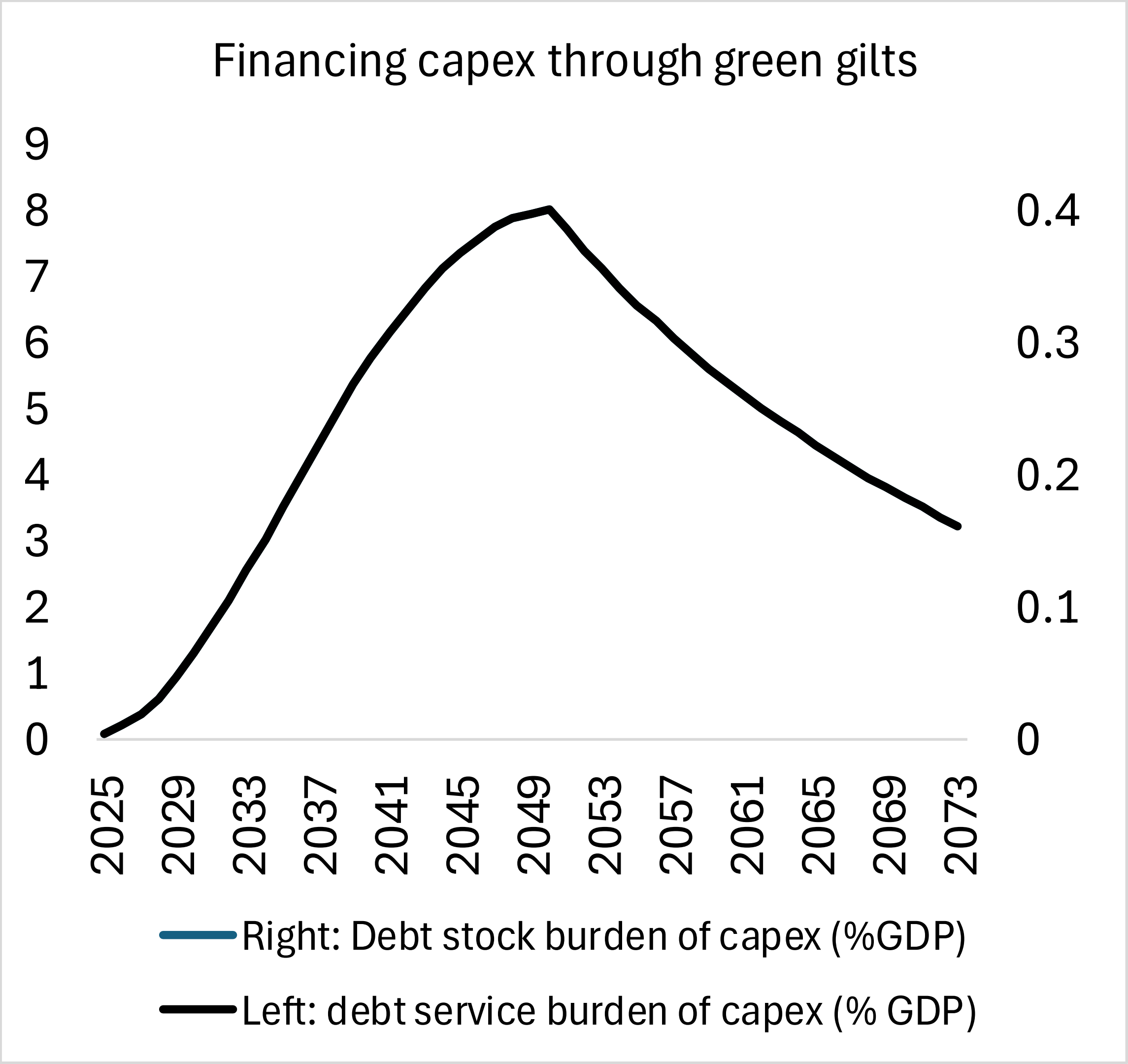
- **HM Treasury**: " With a target portfolio mobilisation ratio of 1:3, the National Wealth Fund could mobilise at least £70 billion of private investment" (2024:7)

- **Cities Climate Com**"...preferred way forward for … *accelerating the UK's pace of eliminating greenhouse gas (GHG) emissions by 2050* is the design of a new programme that delivers a place-based, multi-intervention Net Zero Neighbourhood (NZN), supported by a ***blended finance model***." (3Ci 2023, p. 14)

Our estimates show that that the burden of net-zero funding is by the central government is manageable.

Financing net-zero projects: the UK case





Capex & opex cost of net-zero from CCC (2025). Financing capex assumes 5% coupon rates via 25 yr gilts.

Comparison of potential debt burden for UK Gov

If the UK government funds all net-zero capex

Extra debt service cost: max 0.4 % of GDP

National Debt to GDP ratio would rise max. by 8 percentage points

Compare with Debt to GDP Ratio

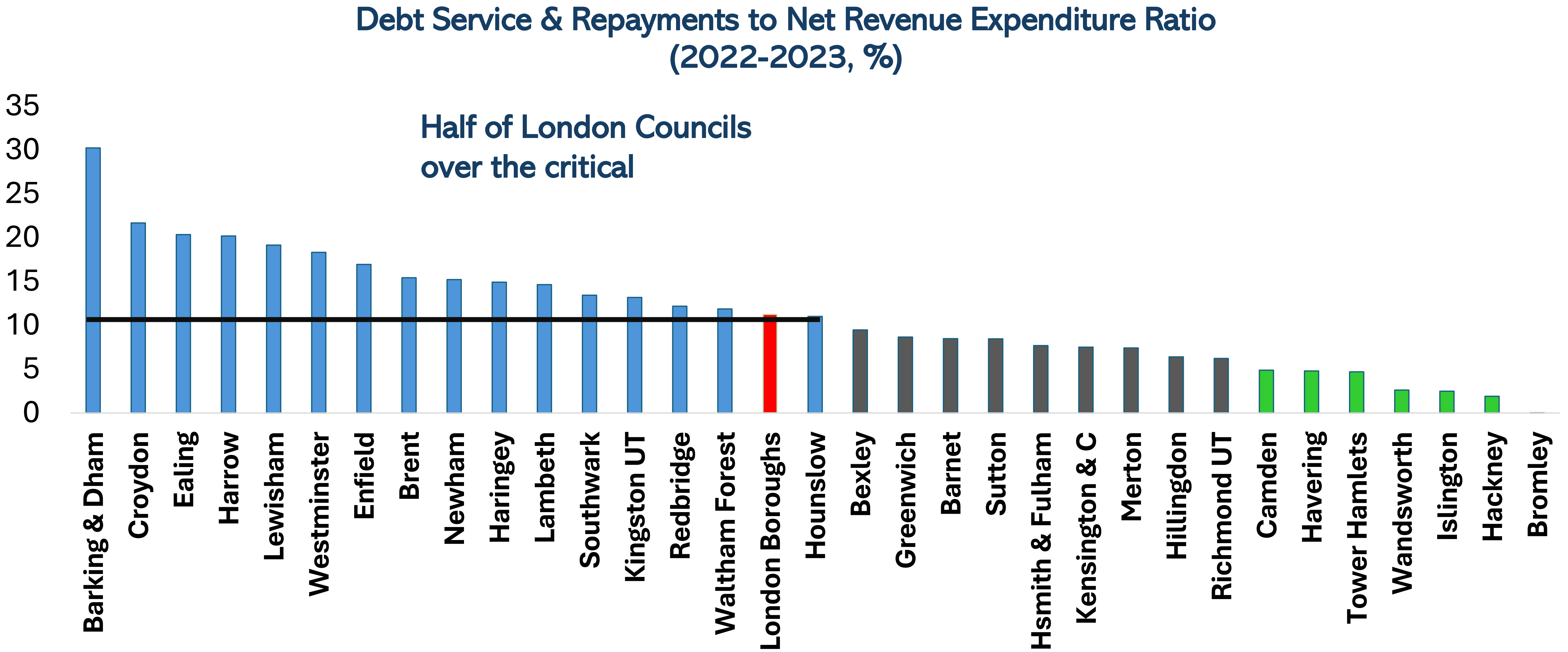
During 2007-2014, rising from 42% to 84% (financial crisis & the austerity)

During Covid-19 rising from 85% in 2020 to 101% 2022 (ONS 2024)

Local authority (LA) funding and net zero

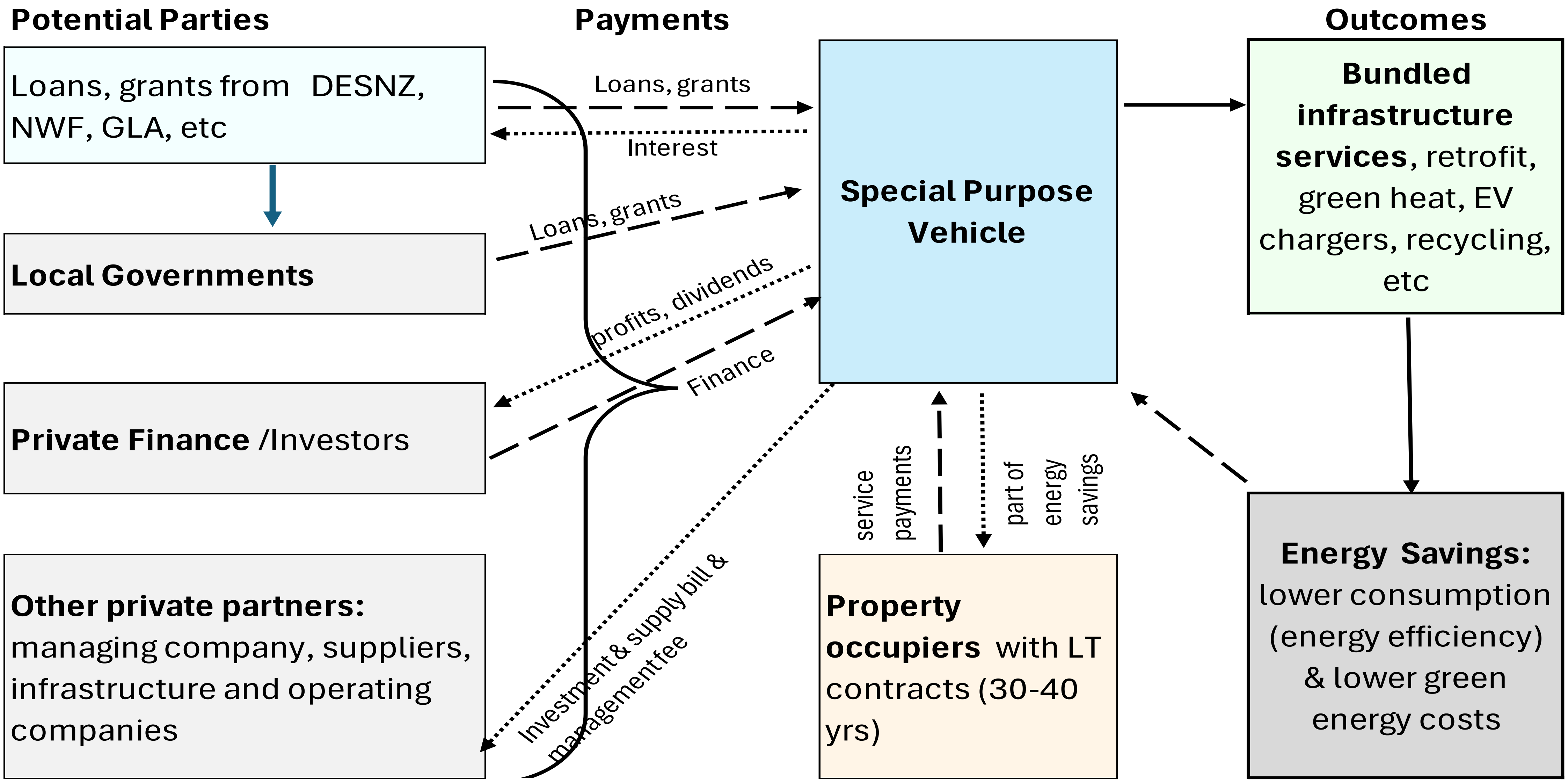
- Estimates show that approximately ½ of all UK net-zero investments need to take place at local level (UKRI 2023).
- LA funding is related to statutory duties and reducing emissions is not a statutory duty for LAs. Thus, there is no funding commitment for net-zero.
- Instead, LA's have to apply for a range competitive grants offered by DESNZ and other departments which work to the disadvantage of resource poor LAs.
- LA budgets have been stretched to fund key services (Dagdeviren 2024, Gray and Bardford 2016). So, there is little capacity for them to fund essential net zero investments from existing revenues.

Is local borrowing an option?



Thus, LAs together with 3Ci are seeking to develop blended finance projects

How does BF work? Net-zero neighbourhoods model (NZN)



What does this model do?

1. De-risks the stakes of private finance

2. Represents a new phase of privatisation

3. Re-commodifies energy

4. Re-makes energy markets

A new phase of privatisation

Privatisation (1.0)	• Sale of existing SOEs and assets in agriculture • **Rhetoric: tackle inefficiency, arising from government failures**
Privatisation (2.0)	• Full to partial privatisations of infrastructure dev & utilities • Unbundling and regulation as a panacea for market failures • Contractual experiments for reducing or de-risking • **Rhetoric: emphasis is on competition to achieve efficiency, regulation for market failures**
Privatisation (3.0)	• Private finance plays greater role. • Stable returns supersede ownership of assets as in the case of hospitals, schools, e.g. PFI… • Penetration into soft services such as social care • **Rhetoric: fiscal constraints rather than inefficiency.**
Privatisation (4.0)	• Making and remaking markets for private capital beyond existing frontiers of public sector economies, especially for conservation and climate mitigation • Rebranding of finance-led privatisation as blended finance. • **Rhetoric: efficiency hardly features, fiscal constraints are the sole reference point.**

Re-commodifying energy

Private capital's anxiety:
Decentralised energy and the opportunity to de-link from existing oligopolistic energy market

NZN model as a solution to this problem

- Bundles up less with more profitable elements of net-zero investments
- The new commodity is called various things, including 'warm homes' services, mixing retrofit /insulation with
- Long-term contracts, locking-in residents for 30-40 years to the SPV

Re-making the energy market

1. The central government has been assigning new powers to OFGEM to regulate local energy market
2. Energy zoning is being introduced to create the boundaries of local markets for local authorities to coordinate net-zero investments and local energy markets
3. Creating the customer base: legislation or persuasion?
    - **The sign-up problem:** *"Blended finance requires people to sign up for many decades and I have* ***not seen anyone who managed to convince people to do that****". (KI 20)*

    - **Engagement tactics**: *"The* ***residents were mistrustful of the Council*** *when we started (...) We had a lot of engagement, a lot of talking to residents, a lot of regaining trust (...) We've gone through a good few years of co-design of engagement with residents on the refurbishment of the estate and the heat network..." (KI 25)*

    - **Cost of living crisis and poverty** *"I don't think that sustainability is a concern of theirs in many areas because people might be, you know,* ***struggling to pay the grocery bill****. ..." (KI 15)*

    - **Risks for vulnerable communities** *"I think there needs to be risk profile from a Community perspective as well... Certainly when you're dealing with* ***social housing****, anything where there is profiteering it doesn't sit great with residents and completely understand that" (KI 18)*

Conclusions

1. The basis of the argument that the public sector cannot afford net-zero investments needs to be questioned. In the UK, this does not seem to be the case.

2. Blended finance for net-zero projects

- extend privatisation into areas not captured before as argued by a large literature in economic geography

- remake commodities and markets to turn climate emergency into new profit outlets for private finance

3. Central and local states play a key role in this process of “remaking” (as well as de-risking as argued by others)

2. New privatisation rhetoric no longer relies on arguments about efficiency but fiscal constraints