

Climate legislation

Blended finance can help Britain catch up on climate

The UK's competitors are already stealing a march using this approach

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In Bristol, a 20-year partnership between the city council, a US cleantech business and a Swedish energy company is showing how government, business and private investors can work together to bring in private capital at scale to solve the country's most pressing challenges.

Bristol City Leap aims to decarbonise England's seventh-largest city by giving business and investors the policy certainty needed to commit for the long term. With an initial focus on the council's own assets, a partnership has been developed with Ameresco and Vattenfall that will direct about £630mn of public and private investment over five years into solar, wind, heat networks, heat pumps and other energy efficiency measures to help Bristol meet its target of being "carbon neutral and climate resilient" by 2030.

The challenges of designing such a partnership should not be understated, but nor should private-sector appetite. More than 180 companies were interested in getting involved. The project offers a model for collaboration between the government and the private sector in addressing the UK's economic, environmental and social challenges.

Bringing more private capital to bear on these challenges is

critical. Fiscal realities mean private investment is the only way to bridge the financing gaps that exist across the UK economy.

Smart electricity grids or better care for our ageing population are not going to happen without bolder ways of deploying public money, using it more effectively to crowd in private capital at scale.

The UK government has an opportunity to get better results for every pound of taxpayers' money spent, by establishing more partnerships like Bristol City Leap, and by working creatively with businesses and investors to design financing structures that blend private and public capital to deliver on public policy priorities.

There are now persuasive examples of these blended finance structures across many parts of the economy, and of teams in government departments and local authorities who are embracing the opportunities such an approach offers.

But much more ambition across government is needed. Realising the full potential of blended finance will require a change of approach and a willingness to work collaboratively with the private sector, co-designing solutions that work for everyone.

The Green Finance Institute

has trialled the design of an investment vehicle that meets the needs of different types of capital providers, and which could turbo-charge a vital sector for the UK's growth — electric vehicle batteries.

The sector offers huge potential, with the automotive supply chain for EV technologies estimated to be worth £24bn a year by 2025. Grant funding has supported many early-stage companies in the sector, but they struggle to achieve scale and reach beyond this.

To unlock the private finance needed to bridge this gap, the GFI and a coalition of industry representatives consulted with government bodies, and private investors. The consultation found that there was significant appetite from the private sector for investing, using public capital as a cornerstone, overseen by an independent fund manager.

The GFI's proposed Battery Investment Facility will bring in private capital, support companies to reach full commercial viability and widen the pool of investors in the sector, all in aid of a public policy priority — establishing the UK as a globally competitive player in the EV battery sector.

The LSE's Grantham Research Institute on Climate Change and the Environment

will publish research this September showcasing more examples of how blended finance has worked in practice, in the UK and internationally, to deliver effective and value-for-money results in early years education, heat pumps, end-of-life care, and a range of other sectors. These examples can now be replicated at scale.

Not doing so will carry a huge cost. The UK's international competitors are outpacing us in embracing the opportunity blended finance presents.

The EU's Green Deal aims to use regional budget spending to catalyse €372bn of private investment, through guarantees and other blended finance tools. America's Inflation Reduction Act provides \$369bn for a mixture of tax credits, loan guarantees and grants for energy- and climate-related programmes, which is demonstrably already redirecting global investment into the country.

There are tried and tested pathways for the UK to catch up. But the window for it to do so is closing fast.

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