

International Round Table: Financing Climate Action at City Level

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CAST is a global hub for understanding the systemic and society-wide transformations that are required to address climate change. Based at the University of Bath, our additional core partners are the charity Climate Outreach, the University of Manchester, University of East Anglia and Cardiff University.

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Summary

All local governments face challenges in financing their decarbonisation programmes. Typically, they lack the range of financial tools and resources available to national governments. They must also work within complex political, economic, social and environmental landscapes and constraints. Yet at an International Round Table on Financing Climate Action at City Level, officials from city and regional governments from across Europe and North America demonstrated that by:

- taking a long-term approach to working with businesses and the third sector;
- adapting financing approaches to project scale;
- using a range of financing structures to work with external partners;
- reaching out to other municipalities, and;
- seizing political moments of opportunity;

local governments have successfully funded major decarbonisation programmes.



Introduction

An online International Round Table on Financing Climate Action at City Level took place on November 15th, 2023. Participants were from city and regional governments in Canada, France, Germany, Italy, Norway, the USA and the UK (see end for details).

The event enabled the exploration of financial issues associated with city-level climate action. It was a follow-up to an earlier international round table on [accelerating climate action at city level](#), where finance was identified as a topic of particular interest.

The follow-up round table was co-hosted by the [Centre for Climate Change and Social Transformations \(CAST\)](#), [The Tyndall Centre for Climate Change Research](#) and the [Greater Manchester Combined Authority \(GMCA\)](#). Presentations were given by officials from Bristol City Leap, as well as Oslo and Greater Manchester authorities, but the majority of the event was allocated to discussion.

All participants were officials tasked with implementing ambitious climate change mitigation plans, or their colleagues working in business or finance. The purpose of the round table was to provide a space for these people to share their experiences and learn from each other. Participants were encouraged to talk about challenges as well as successes.

This report summarises the points that emerged from the discussions. It is not a list of simple solutions, nor does it represent the authors' or round table participants' final position on 'how to finance climate action'. Instead, it is an indication of the financial issues that people working on city-level climate action are facing and the approaches they are taking to make progress.

Fitting the funding approach to the scale of the climate project

The financial scale of climate initiatives is a critical factor in determining appropriate funding approaches. A decarbonisation project may be seen as too costly by one funder, but too small to warrant investment by another. Matching the funder to the scale of the project is a key challenge facing city governments.

For example, in 2018 Bristol City Council estimated that decarbonising the entire city – not just the Council's estate, but all the buildings, transport, etc – would cost £7-9 billion. Bristol City Council's annual budget is just under £0.5 billion, so the authority decided to approach a large private sector partner to fund and carry out much of the work (see Case Study Box: 'Bristol City Leap' on [page 6](#)).

With a population of half a million people, Bristol is not a large city by global standards. For larger areas, the cost and complexity of decarbonisation projects could be much greater. On this basis, Greater Manchester (with a population of nearly 3 million) has decided to divide its climate work into 'asset classes', including housing, transport and others, and is thinking about multiple funding partnerships.

Sometimes, the scale of the city or region might be too small to drive change in a particular market or sector (see Case Study Box: 'Working with other cities: Oslo's journey to zero-emission construction' on [page 6](#)). Even within cities, small projects may lack economies of scale and so struggle to attract finance. The low-carbon retrofit of existing buildings can be one such case. Unless the buildings are very large, the cost of due diligence on loans to individual building owners may not be an attractive proposition for financial institutions. In these cases, where there is a gap in the finance market, publicly funded loans issued by city authorities might be a way forward, but such an approach carries its own risks.

Case study: Bristol City Leap

Bristol City Leap is a world-first 20-year partnership between Bristol City Council and the clean technology integrator company Ameresco. Ameresco has committed to mobilising over £400m of investment into decarbonisation projects in Bristol in the next decade. In exchange, Ameresco has the right of first refusal to develop local energy projects, known as a 'concession agreement'. This reduces some of the risk for Ameresco: the company does not have to worry about spending time bidding for projects and not winning them. However, there are significant environmental and social performance conditions attached to the partnership and responsibility for meeting these falls on Ameresco's shoulders. Furthermore, though the municipality can choose to invest in some projects, it is not obliged to provide any funding to Ameresco.

Case study: Working with other cities: Oslo's journey to zero-emission construction

The municipality of Oslo wanted to ensure that all the construction projects that it financed had zero emissions, which would require the use of electric machinery. The likely extra cost of electric construction was not seen as an insurmountable obstacle. Indeed, the city now has zero emissions criteria for *all* procurement, which it estimates adds no more than two percent to the overall budget.

However, officials felt that the Oslo construction market was too small to incentivise large construction companies to invest in new technology. So, they worked with other cities to promote the electrification of construction. Oslo led the establishment of C40's [Clean Construction Forum](#), which showcases low-carbon construction projects around the world. Eight cities have now signed the Forum's [Accelerator Declaration](#), committing to at least one major net zero emission construction project by 2025. Additionally, Oslo also helped establish the EU [Big Buyers' Initiative](#) on clean construction, which developed an online database of electric construction machinery.

Such initiatives provide a space to engage with industry, empower local officials with knowledge of the construction sector and establish signatory cities as desirable locations for forward-thinking construction firms to work. The majority of municipal construction projects in Oslo are now zero-emission.

Finding money when budgets are tight

Given the large-scale changes required to decarbonise and recent rises in the costs of energy and materials, it is not surprising that local governments everywhere are looking for ways to supplement their budgets. One potential solution is for national government funding to support local schemes. For example, in New York, Local Law 97 imposes emissions requirements on the owners of all buildings above 25,000 square feet – some 50,000 buildings. While this law applies only to New York City, aspects of its implementation – such as a programme of guidance and funding to support compliance by smaller landlords – have been funded by the US Federal Government.

Round table participants shared other examples of innovative funding mechanisms for climate action. For example, the City of Oslo has charged a toll for use of the city ring road since 1990. This income was initially dedicated to road infrastructure. However, it now funds public transport decarbonisation, and the City anticipates all public transport will be electric by 2024.



Building financial relationships with external partners to drive climate action

Reaching beyond their own resources, many cities are collaborating with the private sector and financial actors. Such collaborations involve various financial structures and implications.

1) Formal partnerships: One route to finding extra finance from the private sector is a formal legal partnership. While these may take time to establish, they can offer long-term stability and reduce some of the 'transaction costs' from the contracting process. A notable example is Bristol City Leap (see Case Study Box: 'Bristol City Leap'). While operations are in their early days, as the first 'whole city' venture of its kind in the UK, it has already demonstrated that there is significant private sector interest in larger and longer-term partnerships (the initial offer document received well over 100 responses).

2) Public procurement and investment: In markets where the city authority is a significant customer, there may be scope to leverage that market power to drive change towards decarbonisation. For example, as over 20% of construction projects (e.g. building schools, metro lines and water networks) in Oslo were funded by the City Government, the City had a relationship with local construction companies and an opportunity to talk to them about adopting zero carbon methods. How a particular element of decarbonisation (e.g. use of electric vehicles or higher energy efficiency standards) is built into contracts might depend on the level of challenge it represents to potential contractors. Where mature technology and a skilled workforce are available, authorities could set minimum standards. Where an element of decarbonisation is more 'cutting edge', it might be better to offer incentives to encourage contractors to try it, rather than to mandate changes.

3) Regulation, penalties and support (aka sticks and carrots): In New York, Local Law 97 imposes fines on commercial building owners for greenhouse gas emissions from their properties. These fines are substantial, potentially running into millions of dollars for the largest buildings. But alongside the 'stick' of these fines is the 'carrot' – or at least the 'helping hand' – of a support programme for building owners. It provides guidance, and some financial support, to help owners retrofit their buildings to be more energy efficient and reduce their emissions. This support programme is particularly important for smaller-scale companies and building owners, who may not have the knowledge or financial resources of larger commercial landlords.

4) Communications and facilitation: GMCA's approach to promoting the retrofit of commercially owned buildings involves working with one leading developer to produce a toolkit which provides guidance to other landlords on energy efficiency and improving the environmental performance of their buildings. The toolkit will help those landlords who would like to lower their properties' carbon emissions but aren't sure how to go about it. A relatively voluntaristic approach like this is useful when there are legal and resourcing obstacles in the way of more forceful approaches, such as altering local commercial tax codes ('business rates') to incentivise decarbonisation or establishing new funding programmes.

Balancing the urgency of decarbonisation with the need for long-term thinking and working

Action on climate mitigation is more urgent than ever. Yet achieving net zero goals requires transformational change; it will change how people eat, travel and heat their homes, for example. The [first round table](#) highlighted that, because of how it impacts every citizen's life, decarbonisation can only be achieved "at the speed of trust". In the follow-up finance-focused round table, participants reported that it takes a long time to develop, fund and implement a programme that is sufficiently far-reaching to hit their decarbonisation targets.

Suggestions for how to develop a successful long-term programme included: talk to and learn from cities elsewhere who have experience in this field; talk with actors, such as residents and businesses, likely to be affected by your plans before implementing them; begin with pilots and small steps, where working relationships can be established and from which more ambitious programmes can grow; and remember to look for the opportunities afforded by taking a long-term view, as well as being aware of the risks.

Any programme at the level of ambition required to tackle climate change will take time and effort. It took Bristol City Council four years from conceiving Bristol City Leap to signing a contract with private sector partners. This was partly due to the Covid-19 pandemic and partly due to being the first city in the UK to attempt such a partnership. The process might well be quicker for others. That said, signing the contract only marks the 'end of the beginning'; the contract itself is for 20 years of work.

The timescales required for major change were evident in other cases. While the majority of municipal construction sites in Oslo are now zero carbon, discussions with construction companies began seven years ago. It's projected that it will take another seven years for *all* construction in the city to be zero carbon. Similarly, New York's Local Law 97 was passed in 2019 but is only entering into force now, five years later. Its origins can be traced back to regulations introduced 15 years ago.

These long timescales to achieve change might seem disheartening in light of the need for rapid decarbonisation globally. However, participants noted that long-term approaches also have advantages. Long-term programmes can include projects that might not happen if short-term financial returns were prioritised. These can include vital elements of decarbonisation, such as building energy retrofits and a wider range of renewable energy developments.

Taking more time also allows for incorporating greater social value into climate action. For example, there may be scope for developing the local supply chain: taking time for local companies to learn new technologies and methods, training a local workforce, and creating a significant number of jobs. In this way, the long-term approach that transformative change requires can also help deliver greater co-benefits.

The long-term begins today

Bold leadership will still be required to achieve decarbonisation. If change takes a long time, then it needs to start as soon as possible. While it is necessary to 'bring people along' on the decarbonisation journey, someone has to make a move to start that journey.

Timing the move to seize political opportunities may be important. For example, New York's Local Law 97 was passed at a time when environmental and labour groups were in a relatively strong position in local politics. Since that bold step, a huge amount of 'bringing people along' work has gone into developing the details of implementation and working with building owners to ensure the law has the intended decarbonisation impacts.

Where a local administration is relatively politically secure, or there is support from national government in the form of regulations or funding, then local politicians certainly have an opportunity to drive faster climate action. However, impressive decarbonisation programmes have also come from localities without these advantages, where environmental issues have been established on the local agenda. For example, Lyon has embarked on an ambitious programme following the election of a coalition led by the Green Party (Les Écologistes) to the municipal administration for the first time. Bristol has built up in-house expertise in energy through several different political administrations and has drawn support from active local environmental groups.

As responding to climate change becomes an ever more pressing concern for citizens, businesses and governments, it seems that there are many ways for local politicians to make a difference and put their cities and regions on the map as climate pioneers.

Further reading

Further detail on initiatives and places mentioned in the report:

- [Bristol City Leap website](#)
- [NYC Local Law 97 Accelerator website](#) and [2022 Advisory Board Report](#)
- [C40 Cities Clean Construction Accelerator Report 2023](#)
- [Eurocities Big Buyers for Climate and Environment website](#)
- [Grand Lyon budget orientation 2022-23 \(French\)](#)

Wider reading on cities, climate and finance:

- Brauholtz-Speight, T., McLachlan, C. and Barton, H. (2023) [International Round Table: accelerating climate mitigation at city level](#). CAST.
- Bachra, S., Lovell, A., McLachlan, C. and Minas, A. (2020) [The co-benefits of climate action: accelerating city-level ambition](#). CDP, CAST and Tyndall Centre.

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CAST is a global hub for understanding the systemic and society-wide transformations that are required to address climate change.

We research and develop the social transformations needed to produce a low-carbon and sustainable society; at the core of our work is a fundamental question of enormous social significance: How can we as a society live differently – and better – in ways that meet the urgent need for rapid and far-reaching emission reductions?

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