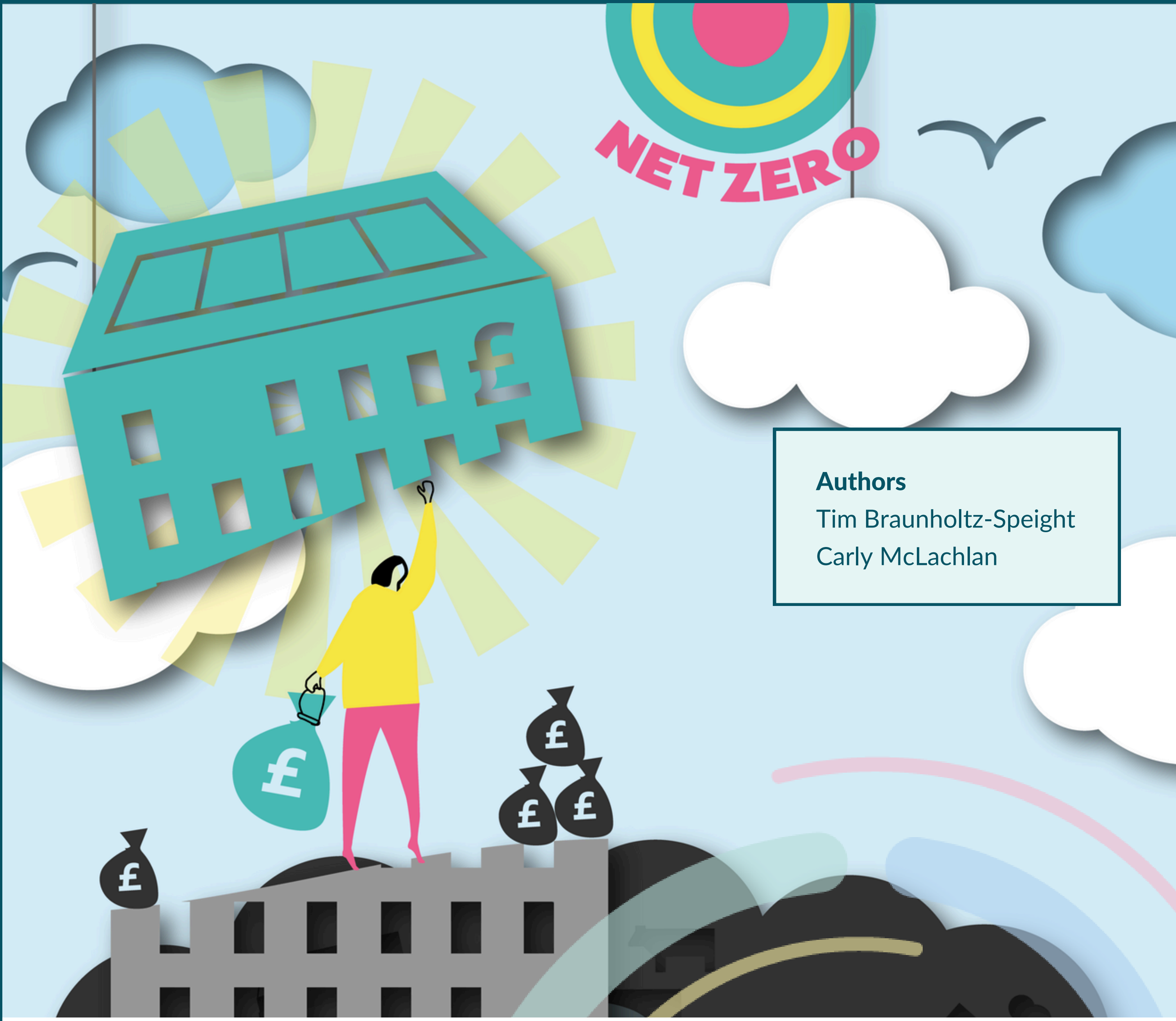

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Raising the floor as well as the ceiling?

How minimum climate standards could help England’s Devolved Authorities align new projects with net zero

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Summary

- Many of England's Devolved Authorities have ambitious net zero targets and flagship 'green' projects that 'raise the ceiling' of sustainable development in their area.

- However, Devolved Authorities generally do not have rigorous minimum decarbonisation standards to 'raise the floor' and robustly embed net zero into investment decisions.

- Continuing to fund or invest in high-carbon projects (such as roads or gas-heated housing) may prevent Devolved Authorities from meeting their climate change goals. However, Authorities may feel they have little choice but to continue to invest in projects with relatively high carbon emissions, due to four main factors: dependence on short-term central government funding, lack of private sector appetite, lack of internal capacity, and perceived political risks surrounding pursuing low-carbon projects.

- It is possible for Authorities to support more sustainable projects within the constraints of the existing funding landscape. Devolved Authorities could diversify their funding streams; introduce climate-related assessments/objectives for newly funded projects; and build internal skills and knowledge related to low-carbon investment.

- Additionally, central government could set stricter national regulations and give more power to Devolved Authorities.

Introduction

England's Devolved Authorities – the Combined Authorities, and the Greater London Authority (GLA) – play important roles in coordinating infrastructure development and investment at a regional level. Many have set ambitious targets for reaching net zero, often ahead of the UK goal of 2050. If Devolved Authorities fund or invest in projects that are not aligned with decarbonisation, they risk 'locking in' high-carbon infrastructure for years to come. This could jeopardise the attainment of regional and national net zero targets.

This report sets out how Devolved Authorities are trying to align their funding and investments with net zero. It also outlines the challenges Authorities face in supporting low-carbon projects and how they could address these. The insights draw on analysis of net zero investment policies of regional and devolved governments across the UK, and interviews with officials at six English Combined Authorities and the GLA.

Current approaches

Authorities use a range of approaches to incorporate their net zero goals into their funding and investment decisions (see Table 1).

Minimum standards and exclusions

Liverpool City Region (LCR) Combined Authority leads the Devolved Authorities in its stringent approach – it only invests in projects which are compatible with its goal of becoming a net zero region by 2035. In particular, the LCR Investment Strategy has a list of exclusions under the heading "what we don't fund". Exclusions include new roads "primarily for car access" and new buildings, domestic or commercial, with an energy rating lower than EPC 'B' (EPC 'C' is the UK national target).

Similarly, the GLA's investments, including its £4bn Affordable Homes Programme, must comply with the London Plan, the Mayor's spatial development strategy for the city. The London Plan mandates that all new buildings achieve at least 35% more carbon savings than national building regulations, and the GLA finds that, in practice, projected savings are even higher. The Plan also requires a developer contribution for any projected shortfall in reaching net zero, calculated at £95 per tonne of CO2 produced per annum, for 30 years. This money is paid into a carbon offset fund managed by the local planning authority (in practice, a London borough).

Climate as a factor in decision-making

Other Authorities incorporate net zero considerations into project assessment processes. In West Yorkshire, for example, new projects are assessed on six criteria, of which “Addressing the Climate Emergency” and “Strategic Fit” carry the highest weightings. In Greater Manchester, the Sustainability Assessment Tool summarises how projects score against nine criteria, including “Carbon, Nature and Environment” and a more detailed “Carbon Assessment”. In the West of England, all projects must demonstrate how they contribute to the region’s decarbonisation, although this is not subject to a formal scoring process.

Flagship projects

Many Authorities focus their net zero attention on specific low-carbon projects. These projects are often related to public transport, (e.g. the provision of electric buses or trams), but also include specific building development, renewable energy, green space and ‘natural capital’ projects.

These projects are valuable. Flagship low-carbon projects ‘raise the ceiling’ of best practice, by demonstrating successful and significant decarbonisation, often accompanied by non-emissions-related ‘co-benefits’. Flagship projects, especially if deployed at a sufficient scale, have the potential to change wider expectations and practices in their region and sector, and perhaps beyond.

However, they do not in themselves ‘raise the floor’ of baseline practice – they do not impose minimum standards on all funded projects and thus do not block high-carbon projects from going ahead. Therefore, there is a risk that by relying on flagship projects to decarbonise a region, Authorities will continue to fund other projects which are incompatible with their net zero goals.

Aligning funding and investments with net zero: current English Devolved Authority approaches

Approach	Example	Advantages	Disadvantages
Excluding high-carbon projects	Liverpool City Region Investment Strategy states that the Authority will not fund new car parks and new roads "primarily for car use".	Avoids 'locking in' high-carbon infrastructure. Sends clear signal to the public and private sector.	Politically difficult – may lead to project delays or public objections.
Implementing higher-than-national minimum environmental standards	The London Plan mandates that all new buildings achieve at least 35% more carbon savings than national building regulations. This has driven low-carbon ambition, with planning applications on average projecting savings over 50% greater than national regulations.	Clear contribution to net zero goals. Potential economic and health co-benefits to residents.	May delay or increase the upfront cost of projects. Need technical inspection capacity to monitor compliance.
Considering climate criteria in project assessment	In the West Yorkshire Investment Assurance Process, "addressing the climate emergency" is the joint highest weighted out of six criteria for early-stage project approval.	May be politically easier to introduce than exclusions. Potential for exploring trade-offs and synergies between carbon and other factors.	Single overall project score may mask poor climate performance and hide trade-offs. High-carbon aspects may be missed if early-stage project proposals lack detail and then aren't re-assessed.

(Table continued on next page)

Considering climate criteria in project assessment (continued)	Greater Manchester's Sustainability Assessment Tool enables new projects/proposals to be assessed on carbon emissions and co-benefits.	Potential for trade-offs and synergies to be considered. Sets shared expectations of poor, good, and excellent carbon performance.	Varying project development processes across different Authority departments may mean not all projects are assessed.
Requiring projects to demonstrate their contribution to net zero	The West of England Investment Strategy states that all projects must consider how they contribute towards "the region's vision for becoming carbon neutral".	Relatively easy to introduce politically. Recognises good practice and signals intent to reward pro-climate projects.	Risk of assessments being vague or unambitious – feedback and support needed for those making assessments.
Developing flagship climate projects	Many projects where, for example, an exemplary low-carbon building is constructed, or one specific public transport route is improved.	Politically attractive. If on a sufficient scale, may build capacity and ambition for higher net zero standards beyond the project itself.	Risk of allowing other high-carbon projects to go ahead.

Table 1: Aligning funding and investments with net zero: current English Devolved Authority approaches

From policies to practice: why have funding and investment practices not changed?

"We talk a lot, but we don't really walk the walk" (Investment official, 2024)

Devolved Authorities' net zero goals are clearly influencing their funding and investment policies. In our interviews, officials from Devolved Authorities were well aware of the need to change funding and investment practices to reach net zero goals. However, we heard that minimum standards policies have not yet had a significant impact on actual investment decisions. Why is this the case?

In some cases, this was because policies had only been in force for a short time. In others, policies may have been too loosely worded to disrupt 'business as usual'. However, even where policies seemed clear and well established, our research identified four common obstacles that prevent Devolved Authorities from changing their funding and investment practices.

Limited powers and external constraints

Officials spoke of their dependency on central government funding, which often came with binding conditions and tight deadlines. Officials felt pressured to prove their capacity to deliver on central government priorities, which could stifle innovation:

"You are very much orientated around deliverable projects. So you can demonstrate you're getting spend and money out the door... that doesn't always lead to transformational investment." (Policy manager, 2024)

In addition to the terms and conditions of funding, Authorities sometimes felt constrained by central government in other ways. For example, in December 2023, Lee Rowley MP, then Minister for Housing, made a ministerial statement specifically discouraging local authorities from setting minimum energy efficiency standards for new buildings that were higher than national building regulations. While not directly addressing Devolved Authorities, this statement was said by some officials to have had a dampening effect on their plans.

Differences in legal and financial powers between different Authorities also affect the level of ambition and feasible scope of action. Notably, Authorities with more powers are using them - this indicates that there is potential value in more devolution.

Lack of internal capacity

Officials identified a lack of internal capacity, including technical climate/decarbonisation skills and knowledge. Some sectors and Authorities highlighted uncertainty around what constitutes an acceptable net zero compatible standard. That said, officials discussed the positive impacts of partnering with external specialists or appointing members of staff from other sectors, who could bring experience and expertise that might be lacking in-house. Officials also felt that, given the amount of time and effort staff devote to developing project proposals, there was some understandable reluctance to highlight areas where proposed projects might fall short of good climate practice if this could jeopardise the chances of these projects being awarded funding.

Lack of private sector appetite or capacity

Another obstacle emphasised was a lack of appetite or capacity in private sector partners to do more on decarbonisation without additional resources. Officials felt that local small or medium-sized businesses (SMEs) would need assistance to build the capacity required to meet higher environmental standards, while larger companies were in a stronger position to negotiate on project funding and criteria. That said, the fact that companies do come to Authorities for funding gives the public sector some leverage (see ‘Ways Forward’).

> “I think the developers would see it as our problem, not theirs… ‘I'll go and build my houses somewhere else, if you're going to make me do that’” (Investment official, 2024)

Some officials feared a ‘race to the bottom’ between regions, which dampened their enthusiasm for demanding tougher net zero standards from the firms they are working with. This explains why our recommendations (see ‘Ways Forward’) include both ‘more devolution’ and ‘tougher national regulations’. Devolved Authorities want more powers, money and time with which to raise their own standards; but they also want national government to raise everyone’s standards through regulation, so as to safeguard them from being ‘undercut’ by other regions.

Political caution

There was a perceived lack of political appetite for taking more radical approaches that might disrupt the public (e.g. limiting private car use). Therefore, Devolved Authorities largely focus their climate plans and investments on “positive” projects, such as better public transport or flagship low-carbon housing developments. They avoid “tricky” actions that could disrupt daily life. As one senior member of staff told us:

> “You've got to lead with the solutions and not the problems… But that can delay the difficult conversations” (Official, 2024)

Officials agreed that political leadership is important to make sustainability standards possible. Many could point to the positive impact of politicians committing to decarbonisation. But there was also widespread scepticism over politicians’ readiness to accept the trade-offs that would be involved in aligning all of an Authority’s investments with net zero.

Politicians were seen as concerned about potential public ‘backlash’ to measures that disrupt established practices or restrict people’s lives. The sequencing and timing of decarbonisation measures may be important. It may be necessary to provide positive capacity-enhancing projects, before moving on to measures that restrict what people can do (e.g. improving public transport before introducing measures that impact private car travel). Yet such longer-term perspectives can be impacted by short-term political cycles – politicians may be reluctant to announce more controversial projects in the run-up to elections.

Finally, the wariness of provoking a public ‘backlash’ can manifest in tussles over cost, responsibility and decision-making between the leaders of Devolved Authorities and the leaders of their region’s Local Authorities. This was particularly important for Combined Authorities with more limited resources and powers, who were more dependent on Local Authorities for implementation.

Ways forward

Figure 1: Illustration "But There Are Opportunities For Change" by Mitra Abrahams

> "It definitely is achievable… the challenge is really knocking over that first domino"
> (Investment official, 2023)

Devolved Authorities have demonstrated leadership in setting ambitious net zero goals. Despite the challenges they face, they do have opportunities to take more ambitious action and accelerate progress towards meeting those goals. Central government could also do more to support local leadership.

Devolved Authorities could:

- Adopt a 'lowest carbon feasible' approach, if excluding some project types is not possible. This could include, for example, requiring carbon management plans for all projects, incorporating carbon standards into contracts, or requiring projects to meet specific objectives (e.g. maximising the use of low-carbon or recycled materials).
- Diversify funding streams to lessen dependence on central government funding. This could include building the investment case for net zero with private sector partners, by framing higher project standards as an opportunity for them to build their capacity and competitive advantage for the future.
- Build specialist capacity internally, both in the technical aspects of setting net zero compatible standards and in engaging with investors and private sector partners.
- Leverage and explore existing powers. While there are clearly several significant constraints to what Devolved Authorities can do, both central government and private sector firms still depend on them for delivery and/or funding. There are opportunities for Authorities to use the power they do have to negotiate with partners and position their region as a climate leader that others look to.

Central government could:

- Expand devolution. This could include awarding more single settlements (where Authorities get a multi-year general funding deal, rather than having to apply for lots of specific 'pots'); and extending spending deadlines on low-carbon and climate schemes to give Devolved Authorities the ability to deliver more transformative local climate action. Longer spending deadlines of up to ten years were suggested by participants. Explicit permission, or even encouragement, from central government for Devolved Authorities to 'raise the floor' above national standards would also be helpful.
- Set stricter national regulations, for example for building standards, to create a raised but level 'playing field' between regions.

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Thanks to Mitra Abrahams for producing the illustrations featured in this report. View the one-minute animation summary of this report on the CAST YouTube channel.

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