

# Unlocking net zero financing for SMEs through local business support programmes

13<sup>th</sup> March 2023 Energy Saving Trust



This project has received funding from the EU H2020 research and innovation programme under grant agreement No 893924





Time	Subject	Presenter	
2:30-2:35pm	Welcome and Introduction	Liya Thomas, Energy Saving Trust	
2:35-2:45 pm	EST Climate Change Committee report key findings	Adrianna Threpsiadi, Energy Saving Trust	
2:45-3:05 pm	Financing SMEs 'Greening' in the UK	Dr Robyn Owen, Associate Professor at Middlesex University London	
3:05-3:15 pm	Q&A		
3:15-3:35 pm	ESCO In-a-box	Alex Rathmell, Managing director EP consultancy	
3:35-3:45 pm	Q&A		
<b>3:45-3:55</b> pm	BREAK		
3:55-4:10 pm	Overview of UK Shared Prosperity Fund	Paul Green, Policy Advisor at Local Government Association	
4:10-4:25 pm	SME decarbonisation activities in the East Lancashire Chamber of Commerce and the experience with UKSPF	f Miranda Barker, Chief Executive and Stephen Sykes, Director of Sustainability	
4:25-4:35 pm	Q&A		
4:35-4.55 pm	Discussion		
4:55-5.00 pm	Close		





# Unlocking net zero financing for SMEs



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# Energy Saving Trust's work to support SME decarbonisation

Research examples

- LEAP4SME
- UK policy research "How can policy better support SMEs in the pathway to net zero?"

Delivery of support for businesses

- Business Energy Scotland
- Measure, plan, act service





#### **SMEs and decarbonisation**

There are 5.5 million SMEs in the UK, almost all businesses across different sectors are SMEs

British Business Bank estimates SMEs account for between 43% and 53% of UK business emissions (corresponding to 36% of total emissions).

SMEs have often been overlooked in decarbonisation discussions and policy provision.

Their heterogeneity presents a significant challenge in creating an effective strategy and accompanying policies.



### Key policy gaps

- There is no national SME-specific decarbonisation strategy
- Support for SMEs has been more piecemeal in England than other UK nations. More generalised support often coming from regional government.
- Key policy gaps include:
  - Information
  - Advice
  - Access to finance
  - Access to skilled practitioners
- ERDF-funded initiatives offer insights, but can't address gap on national level



#### Recommendations

#### An enhanced and more joined up policy and support framework is needed.

- Produce a strategy for SME decarbonisation.
  - Addressing upfront financing, time and knowledge constraints.
- Clear regulatory timetable for decarbonisation milestones.
  - Firm dates for future low carbon standards, set as early as possible, reducing decarbonisation costs and risks.
- A joined-up support framework (a one-stop-shop).
  - Awareness raising, financing support, information on regulations, footprinting and audit services, peer learning networks.



#### Recommendations

Support needs to take better account of the differing needs of SMEs in different sectors.

- Decarbonisation pathways differ greatly between sectors. Public/private co-creation should be taking place to offer resources and pathways to different sectors.
- Sectoral and place-based peer networks of SMEs and concerned stakeholders will be crucial for the success of an SME decarbonisation strategy.







Advancing Green SME Finance Research A Middlesex University Research Cluster

#### **Financing SME 'Greening':** *UK Business and Policy Evidence and Role for Local Authorities*

Dr Robyn Owen – Presentation to Energy Savings Trust, 13<sup>th</sup> March 2023



Natural Environment Research Council







#### Intro: SME Finance for A Green UK Economy

- COP26 focused attention on building a green sustainable UK economy
- Insufficient UK govt policy focus on 'greening' SMEs
- UK Green Finance Institute offers no clear roadmap for SME green finance, poor policy mix constrains green SME development particularly for LAs and Growth Hubs
- Govt and SMEs facing competing economic turbulence Pandemic recovery, Brexit, Energy crisis... Green policies being undermined for short-term solutions
- SMEs represent 99% of UK private businesses, 60% of employment, 50%+ GVA and 50%+ pollution
- There is a need for a wider 'nature positive' approach to address net zero and market security for: energy, food, water, health
- SMEs urgently require green education, training, skills and financing
- A potentially major role for LAs to deliver support and funding schemes, but patchy competition funding, mainly through ERDF and potentially SPF





#### Empirical Evidence: BEIS LSBS 2019-2020

Awareness Col%	2019 (n=3486)	2020 (n=1513)	2021 (n=2801)
Not aware of any schemes	66.6	44.6	48.8
Energy Technology List	6.1	8.7	6.9
Enhanced Capital Allowance	11.8	12.1	12.7
Private Rented Sector Regs	12.2	11.7	10.8
Renewable Heat Incentive	23.6	24.5	27.8
Smart Meter Roll out	n/a	32.4	n/a
Workplace EV charge scheme	n/a	19.6	21.7
Energy Savings Opportunities Scheme	n/a	11.6	10.0





#### Which SMEs Take actions to install Green Energy Measures

Green Energy Installations fell from 14% in 2019 to 7% in 2020, rising back to 18% in 2021

#### Green Mission orientation actions:

- > 26% act to address climate change 'Green Mission' SMEs
- Priority green mission SMEs more likely to install renewable energy solutions
- SME employers in higher risk environmental/energy sectors: transport, retail, food and accommodation, face environmental regulations leading to a significant take-up of green measures.

#### Financial Performance orientation actions:

- **58%** take action to reduce costs
- Significantly associated with SMEs in profit
- Government grants are associated with larger green mission SMEs

#### Resource orientation actions:

- SMEs that train staff were significantly more likely to take green actions
- Smaller SMEs, notably self employed, are less likely to seek and use external finance.
- SMEs in rented accommodation were less likely to take green actions





#### Local Authority-Related Support Activities

- ERDF LEP and Growth Hub evaluations demonstrate patchy access and use of competition funds and limited core funding for SME support
- SME A2F programmes e.g. Oxford Innovation's Cornwall programme no specific green support
- Development of online support tools e.g. Staffs GrowthMapper with Net Zero guidance
- SME Aggregating schemes in Cornwall and Lincolnshire mixed success
- Ol's Net Zero manufacturing programme
- Mayor's GLA Better Futures programme e.g. West London Business NZ SME support
- Offer, advice, signposting, small grants/match funding, service vouchers A2F for innovation equity from angel networks, banks and alternative funders (trusts, crowdfunds)
- High Street Banks offering preferential terms for Environmental Technology List lending
- Preferential Insurance rates for greener companies





#### Conclusions & Recommendations (1)

- There is increasing awareness of government energy efficiency schemes (rising from 33% in 2019 to 55% in 2020), but in COVID less action (14% down to 6%). Greener renewable regions have greener SMEs – due in part to sector/green mission clusters
- *Recommendation*: Coherent Govt SME Net Zero awareness raising and support package, targeting sectors/locations Key role for LAs, if better funded
- Green mission and green action SMEs are larger, more innovative, growthoriented, better financed, grant-assisted – but performance improvements may be lagged. Green 'Laggards' are more concerned with the bottom-line financial case

*Recommendation*: This requires better advice and supportive public financing (e.g., grants, soft loans, green investment/tax credits) to understand and rebalance financial trade-offs – LAs can offer an 'honest broker' role





#### Conclusions & Recommendations (2)

Green actions are constrained for tenant businesses

- Recommendation: Reduce the 'Prisoner effect' with schemes to get landlords and SMEs to work together, including SME aggregating schemes – More funding for improved, widespread LA schemes (*learn from 'what works' in ERDF – eg Somerset House green supply chains*)

LSBS environmental data is limited (energy efficiency 1/3<sup>rd</sup> cohort, green mission biennially), and inconsistently collected

– Recommendation: Increase the survey size for environmental data collection of green mission, intentions and financing – use consistent questions and sample structure to enable longitudinal analysis – LAs remain underfunded, but need to keep better business green performance data e.g. green procurement, commercial premises energy performance, local energy area plans, air pollution – strengthen funding case





#### Next Steps – Environmental Policy Mix

- UK policy is big business/project top-down focused (unlike e.g. France's SME Green Tech)
- SME 'B Corps' demonstrate the benefits of self-reporting environmental impact, gaining market leadership, access to new markets, credibility with supply chains, customers and employees
- UK support policy needs to bring together nature, climate and society to maximise NZ and wider environmental protection (UN '30by30'), which requires an integrated SME support policy bringing together Depts Environment, Energy and Business bring together 'Climate Hub' and 'Nature Positive'

#### **Green Finance Policy Requirements:**

- SME finance roadmap for green innovation/adoption
- Far greater co-financed investment into green innovation
- Improved bank lending for greening SMEs
- Targeted grant schemes
- Improved national awareness-raising programme for SMEs
- **Consistent local area LA approach with SME performance SBTs**
- Toolkit support guides enviro health-checker, find finance







#### Next Steps – Increased Local Government Role

- Align to UN Sustainable Development Goals have a 'Green Economy Action Plan' (eg GLA/ LB Hounslow)
- ERDF closing, SPF green business/SME proposals for capacity building, advice services and funding into key sectors and localities, offering EDI outreach and levelling up
- Improved SME aggregation support schemes for premises, equipment, IT efficiency, supply-chains
- Business and green and blue community programmes e.g. people and places, smart cities
- Develop green innovation enterprise zones e.g. West London Freight and Logistics
- ► Green Freeports e.g. Wash Plan
- Importance of LA biodiversity registers for land planning under Environment Act 2021
- Opportunities to explore Biodiversity Net Gain role as land bank manager offsetting services with surplus spend on local green business support (e.g. Warwickshire and Worcestershire CCs)
- Larger green bond funding opportunities through collective LA operations
- Work with the private sector to leverage additional funding
- Rise of 'Challenger Bank' funding and alternative private fund raising sources





#### **Current and recent related projects**

- UKRI NERC funding for our SME Nature Positive Finance project 2023: <u>https://www.ukri.org/news/new-research-will-integrate-biodiversity-and-finance/</u>
- SME Financing for Biodiversity: Building Nature Measurement and Impacts into SME Financing ('SME FinBio') | Middlesex University London (mdx.ac.uk)
- Exploring External Finance Links to Build Back Better a Green UK SME Economy
- PIN-DRAFT-FINAL-Report-30-09-2020-RO-TH-1.pdf (productivityinsightsnetwork.co.uk)
- Contact: Robyn Owen
- r.owen@mdx.ac.uk



# $EPENNECT \\ \textcircledspace{-in-a-box}{\end{tabular}}$

Support for local businesses on energy costs and net zero

Alex Rathmell, Managing Director, EPConnect





consultancy, research and development project design, planning and development



asset management









#### **ESCO-in-a-box in a nutshell**



O A new operating system for delivering de-risked, impactful energysaving projects for businesses

CO ESCO Partners establish a local one-stop-shop and recruit local contractors to deliver projects

C Fee-earning services allow the ESCO to reach break-even in 2-3 years





ESCO-in-a-box has been developed with the support of the **Department for Business, Energy and Industrial Strategy**, as part of the BASEE (Boosting Access for SMEs to Energy Efficiency) programme.



Department for Business, Energy & Industrial Strategy





Cities and regions need to reduce emissions while growing the economy, and cannot rely on grant funding

© ESCO-in-a-box provides 'one-stop-shop' net zero support to businesses. It delivers projects that reduce emissions, increase profitability and increase resilience.



#### Deliver efficiency and clean energy projects:

- Emissions reductions
- Cost savings => improve profitability
- Employ local contractors:
  - Create a local low-carbon pipeline
  - Sustain and create local jobs
- Engage businesses for the long term:
  - Help them play their part
  - Support them all the way to net zero





# (C) Energy efficiency makes good business sense

#### So why don't more companies implement it?

- They are concentrating on running their business
- 2. They need low-risk solutions but don't have time to research technologies or contractors
- 3. They need the capital for other things
- 4. The sales approach is all wrong



Make energy efficiency easy to implement

- Vet technologies and contractors, quality-assure projects



Provide access to capital



Change the approach to reflect businesses' decision-making

## **()** The conventional approach

- An energy audit, relying on the business itself to take the next steps
- A consultant emphasises...
  - Cost savings
  - Payback periods
  - Access to subsidy
- Provides technical advice and payback assessments
- Plays down environmental benefits

Research by Sam Hampton, Environmental Change Institute, University of Oxford, 2019

Based on Schwartz's Theory of Basic Human Values





### (C) "It's the soft stuff that's hard"

- The client might also be a committed environmentalist
- But how can you translate your commitment to them?
- Business people bring different personal values to their environmental engagement
- Find an approach that resonates ...

Research by Sam Hampton, Environmental Change Institute, University of Oxford, 2019

Based on Schwartz's Theory of Basic Human Values



#### VALUES IN BUSINESS

"My father was a true country man [...] it meant a lot to him that he wouldn't be damaging the world, the countryside in particular ..."

Owner-manager of a family business



"Climate change? I don't really believe that we're contributing to that.

Anyway what's the point in us doing anything when China and India are so much bigger. Overpopulation is what people don't talk about.

....But the plastic in the oceans is awful."

Owner-manager of a printing business

#### POWER & Achievement



"We decided we would invest in renewable technology because if nobody ever did it then there would be no research, no economic drive to develop that technology. So it was a loss leader. No actually, not a loss leader. It was a loss"

MD of a drinks manufacturer

#### BENEVOLENCE



# **()** A local approach

#### O Most businesses have

- Local owners
- Local customers
- Local staff
- Their environment matters to them
- Their local reputation matters to them
- Use an approach that fits



- Understand the person as well as the organisation
- Find common ground
- Be patient
- Be 'kind'
- Earn their trust





#### A regional 'one-stop-shop'...

... that manages the whole project from start to finish, assessing, planning, and delivering an energy transformation for any premises

... entirely delivered by a local team with a 'values-led' approach

... with projects delivered by approved local contractors.



**Free report** 



Feasibility



Implementation EPCONNECT







# (C) How it works in theory





1

2

Report

# **(C)** Finance for energy efficiency

#### In principle it's pretty simple

- Energy efficiency project reduces energy bills
- Cost savings are used to pay back the project costs over time
- Result: a cash-neutral or cash-generative project that's also good for the planet





#### Case study: a business EE project

**Energy-saving** technologies installed to create cost savings

LED lighting



Air source heat pump

**Building controls** 

Solar PV

**Business client** saves money on their energy bills and experiences many other benefits

Local ESCO delivers the projects in their region using ESCO-in-a-box platform

**EPConnect** supports ESCOs, keeps resources up-to-date and provides access to finance





Total project cost >=£50k **Energy cost savings allow** investment to be repaid

- Carbon savings  $\checkmark$
- Increased employee  $\checkmark$ safety, wellbeing and productivity
- Verified green marketing:  $\checkmark$ **Energy Pioneer Award**

#### **Delivers** project Charges a small fee, paid from savings

- ✓ Hosts technical experts
- ✓ Manages local network of c. 25 contractors
- ✓ Administers access to revolving fund (repayable grant) and grant funds
- **Delivers** against regional Net Zero target

#### **ESCOs in network: 8 and** counting



# Case study: pay-from-savings loan





# Constant Case study with a non-repayable grant

100.000

90,000

80,000 70,000 60,000

50,000

40,000 30,000

20,000

10,000

- For small projects, it can be difficult to meet the 'golden rule'
- (i.e. monthly savings exceed repayments)
- A grant contribution will help ensure a cash-positive project
- A project grant could also:

# A pay-from-savings project Energy bill Repayments Retained saving

9

10

11

12

13

14

15

- Encourage uptake of the service
- Reduce the finance required by already indebted companies
- Allow more innovative technologies to be included
- Do more in 'one hit'








'Take or pay' Implementation Study including finance





'Take or pay' Implementation Study including finance

Client outsources project development to ESCO





'Take or pay' Implementation Study including finance

Client outsources project development to ESCO

Project implemented by Approved Contractors





'Take or pay' Implementation Study including finance

Client outsources project development to ESCO

Project implemented by Approved Contractors

ESCO provides postproject support ...





'Take or pay' Implementation Study including finance

Client outsources project development to ESCO

Project implemented by Approved Contractors

ESCO provides postproject support ... ... all the way to **net zero?** 

5

**Post Project** 

Support (M&V,

(M&O

4

Project

Implementation

Energy Services Agreement

3

ESCO-in-a-box®

**Feasibility Study** 

(audit)

2

Implementation

Report

**EPONNECT** 

# **(C)** Case study: Energy Solutions Oxfordshire

## The first regional one-stop-shop based on ESCO-in-a-box











We are looking for cities and regions ready to help local businesses save energy and reduce emissions.





# $EPENNECT \\ \textcircledspace{-in-a-box}{\mathbb R}$

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# Helping Businesses Go Green and Achieve Net Zero

Stephen Sykes Director of Sustainability



European Union European Regional Development Fund



East Lancashire Chamber of

Commerce





WWW.CHAMBERLOWCARBON.CO.UK





# The Early Years



# Getting on with it

Lancashire's Business Growth Hub

Development Fund





# What is it?



A global award winning programme

A £6m European part funded, Lancashire wide, partnership programme providing a suite of FULLY FUNDED services aimed to help businesses improve energy and environmental efficiencies, introduce on site renewable energy generation and save money.

To reduce the environmental and carbon footprint of Lancashire businesses

To help businesses developing new low carbon technology to get it to the market and see it trialled and manufactured locally.

To increase the competitiveness of Lancashire businesses

















## What is on Offer?



# ARE YOU A LANCASHIRE BASED BUSINESS? LOOKING REDUCE YOUR CARBON FOOTPRINT, SAVE MONEY & DRIVE ENERGY EFFICIENCIES? WE CAN HELP YOU ACCESS



#### 1-TO-1 BUSINESS SUPPORT IN

- Reducing bills and raw material waste
- Energy efficiency
- Process resource efficiency
- Water efficiency
- Waste / resource management
- On-site energy auditing
- On-site carbon footprint analysis and action plan



#### **BEST PRACTICE EVENTS**

- Let us help you understand which low carbon renewable energy to choose and why
- Find out about low carbon technology, how you can use it and which is best for your business
- We can help you calculate the pay back period
- Understand how it can be installed on your premises



#### **ADVANCED BUSINESS SUPPORT**

- Behaviour change/On-site training
- Masterclass of management systems ISO 14001 and ISO 50001
- Masterclass into on-site energy auditing
- Introduction to environmental auditing





ion





North & Western Lancashire Chamber of Commerce





# What is on Offer?



#### DO YOU DEVELOP LOW CARBON TECHNOLOGY? ARE YOU LOOKING TO MAKE YOUR IDEAS A REALITY, BUT NOT SURE HOW? WE CAN HELP YOU ACCESS



#### LOW CARBON TECHNOLOGIES **ON-SITE GENERATION**

- Meet Low Carbon technology adopters
- View demonstrator sites
- Attend showcase events on Low Carbon technologies
- Access support in finding funding if you choose to implement renewable energies on your site and how to install it



#### LOW CARBON TECHNOLOGY **INNOVATION & MANUFACTURING**

- Product innovation support
- Prototype design verification
- Establish product readiness and find your local manufacturer to help you start production
- Assisting the product to market and finding your demonstration customers
- Specialist support



#### LOW CARBON TECHNOLOGIES SUPPLY CHAIN & SUPPORT SERVICES

- Low carbon supplier support network
- **Business support consultations**
- Meet the manufacturers and suppliers events
- Networking
- Showroom space for your products















# **Additional Activity**



#### **Chamber Low Carbon Newsletters**

Monthly Local Low Carbon News

Legislation and Policy Updates.

**Events** 

Lunch and Learn / A Conversation With.....

Low Carbon Expo

#### **Energy & Environment Forum**

- Legislation and Policy
- Share Good Practice

## Technology & Innovation Forum

- Legislation and Policy
- Share Good Practice

## Circular Economy Club

- Share Good Practice
- Supply Chain













# Challenges

• Initial Buy In and Engagement

- Confusion in the Market Place
- Obtaining Data Energy Bills etc.



















# Our Solution – Change The Message

 Offering Focussed Reviews – Grant Related

- Green Rose Using an Environmental Management System to manage and reduce greenhouse gas emissions.
- Destination Net Zero Procurement Policy Note 6/21

















# Chamber Green Rose

- Low cost, collaborative approach to achieve BS 8555, ISO14005 or ISO14001 compliance
- Focus on performance and continual improvement.
- Identifying cost and carbon saving opportunities
- Reducing bureaucracy
- Engagement and Involvement
- Collaboration and Partnership
- Development of practical approaches for organisations of all sizes and sectors



**Going Green** 















# **Chamber Green Rose**



- 1. Environmental Awareness Gaining Management Commitment
- 2. Company Context, Environmental Aspects and Regulation
- 3. Carbon Footprint, Significant Aspects, Compliance Obligations
- 4. Objectives and Management Programmes and Responsibilities
- 5. Implementation & Communication
- 6. Internal Auditing, Non Conformance, Management Review and Certification

#### Energy & Environmental Review (2½ Days Support)

- 1. Green Rose Baseline Review Including
  - a) Energy and environmental issues,
  - b) UN Sustainable Development Goals alignment,
  - c) Baseline greenhouse gas inventory
  - d) ISO 14001 Gap Analysis
  - e) Prioritise action plan
- 2. Pre Assessment  $(1/_2 \text{ day onsite support})$





















- Based upon Procurement Policy Note 6/21
- As of 30<sup>th</sup> September 2021 companies tendering for public sector contracts worth £5m or above must have made a public Net Zero declaration
- As part of the tender documents they must submit a Carbon Reduction Plan performance against which will be monitored throughout the programme.
- Supply Chain Multiplier















# **Destination Net Zero - What**



- Optional 1/2 day awareness session
- What is it?
- Why do you need to do it?
- How to calculate your Greenhouse Gas Inventory
- How to Develop Your Targets and Carbon reduction Plan
- The difference between Carbon Neutral and Net Zero
- Chamber Low Carbon Team will calculate your Greenhouse Gas Inventory and suggest a Net Zero Target and Carbon Reduction Plan.















# Planning to Going Green or Progress towards Net Zero in 2023?



**Plant Your Green Rose** for Lancashire with **Chamber Low Carbon** 





e-mail: info@chamberlowcarbon.co.uk Visit: www.chamberlowcarbon.co.uk or Call: 01254 356 487

















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#### **European Union**

European Regional Development Fund

