

West Midlands Combined Authority

AREA-BASED RETROFIT AND THE CASE FOR A NEIGHBOURHOOD ENERGY TRANSITION FUND

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Executive Summary

The ask

The West Midlands Combined Authority (WMCA) is seeking a National Demonstrator Allocation of approximately £340m CDEL Financial Transactions (CDEL FT) from the Warm Homes Plan’s £3.3bn innovative finance and social housing pot to equity-capitalise the Neighbourhood Energy Transition Fund (NETF)’s West Midlands programme. WMCA proposes the NETF as a national investment fund with regional programme allocations and delivery.

The challenge

The UK has approximately 29 million homes to decarbonise. Current policy relies primarily on individual household or social housing grant programmes which provide essential support, but they do not, on their own, mobilise sufficient private capital at the scale required to drive supply chain cost reduction, or create the investable pipeline that institutional investors need to participate. At current rates of delivery, the gap between ambition and outcome will widen and places will not reap the full benefit of the electrification and decarbonisation of the energy system.

The opportunity

The Warm Homes Plan, published in January 2026, allocates £5bn of FTs (repayable, capital-preserving instruments) rather than grants, with the intention that investment is recycled over time. Of the £5bn, £1.7bn is allocated to low-cost consumer loans (paired with £300m CDEL grant to form a £2bn consumer loans programme), £600m is directed at social housing, and £2.7bn is described as being for financial innovation in the retrofit sector. The latter two together – £3.3bn – are the pot within which the NETF equity instrument would sit. This represents an explicit government signal that the financing architecture for retrofit must go beyond grant. The West Midlands, through its work in the Local Net Zero Accelerator, is ready to demonstrate what that architecture can look like in practice.

The proposal

The NETF would be capitalised with CDEL FT deployed as patient equity capital, leveraged with private sector debt and deployed alongside existing grant programmes. The fund would originate neighbourhood-scale retrofit projects, typically 500–2,000 homes, delivered through special purpose vehicles that aggregate demand, capture system revenues, and return surplus to communities. At this scale, the challenge transforms from the seemingly impossible task of decarbonising 29 million homes into a finite number of approximately 20,000 replicable funded neighbourhood schemes nationally. Critically, this framing reveals the only financially viable route at national scale: there is simply not enough grant funding to cover 29 million homes individually, but repayable finance deployed through neighbourhood programmes, accessible to all households regardless of tenure or income, creates a model that can scale.

Why area-based retrofit works

Neighbourhood-scale delivery creates economies of scale that go materially beyond what even well-organised social housing programmes can achieve individually: shared infrastructure, programmatic supply chain management that drives genuine cost reduction, aggregated grid flexibility revenues inaccessible to individual households, and social dynamics that accelerate uptake, and a compelling place-based narrative that builds community identity and consent in ways that individual property-focused programmes cannot. Area-based delivery also aligns with the natural geography of heat network zones, DNO substation catchments, and the long-term logic of planned gas grid decommissioning.

The market failure case

Current markets fail to deliver at scale because no single actor can internalise the benefits of coordinated neighbourhood action. Information asymmetries, split incentives between landlords and tenants, fragmented supply chains, and immature investment pipelines all create barriers that public investment is uniquely placed to address. Our proposed delivery model and Neighbourhood Energy Transition Fund resolve these failures simultaneously.

Why CDEL FT equity rather than debt

Equity-aligned FT capital is more appropriate than senior debt for early-stage SPVs in a national demonstration: it absorbs first-loss risk, makes the SPV attractive to private debt co-investors, and aligns the return profile with actual project performance. The base case financial model shows limited initial debt leverage with positive equity returns below gilt yield, consistent with the FT Control Framework's provision for concessional returns where market failure is being addressed. The upside case, assuming capital economies of scale and improved operating performance, shows equity returns above gilt yield and debt leverage approaching a 1:1 ratio.

The West Midlands as national demonstration

The WMCA has the institutional platform, through Energy Capital, the Integrated Settlement, and the existing Net Zero Neighbourhood programme, to serve as an anchor National Demonstrator within the national NETF. Other regions with sufficient delivery infrastructure and programme pipeline may also seek National Demonstrator status, and the fund architecture is designed to accommodate this. Together, a national cohort of demonstrators covering different regional typologies would generate a stronger and more replicable evidence base than any single demonstrator could provide. Critically, the West Midlands would not be starting from a standing start: projects already exist today that could deploy funding in the near term to drive accelerated learning through the current government term. Next steps are set out in Section 9.

1. The Economics of Domestic Retrofit

1.1. The cost of retrofit and the funding gap

The gross cost of whole-house retrofit varies significantly by property archetype, construction type, and the depth of intervention required. For a typical pre-1980 semi-detached home, costs range from approximately £20,000–40,000 for a comprehensive package combining fabric improvements, heat pump installation, and complementary low-carbon technologies such as solar/battery. Current grant support, combining the Boiler Upgrade Scheme, Warm Homes: Social Housing Fund, and Warm Homes: Local Grant where applicable, covers a meaningful share of this cost for eligible properties, but leaves a substantial residual financing requirement for the majority of the housing stock. This gap will not close of its own accord. Even as delivery scales, supply chains mature, and financing structures improve, it may not narrow given the scale of the work within a shortening window of time; public capital intervention remains necessary to genuinely bridge the gap.

1.2. Monetary benefits that could directly support a funding model

Retrofit generates several categories of benefit that are, in principle, convertible into revenue streams capable of supporting a financing model. In descending order of bankability these include:

- Energy bill savings accruing to households, which can be partially monetised through a service charge or ‘comfort pricing’ model. The Warm Homes Plan notes that heat pumps in combination with battery and solar can reduce household energy bills by up to £1,000 per year. These savings provide a basis for a partial repayment mechanism, though the conversion of savings into service charge income requires careful consumer design and testing, particularly in fuel-poor areas where improvements may result in a ‘comfort upgrade’ rather than a bill reduction (see Section 7).
- Grid flexibility and demand response income, which is included in the financial model at a conservative level in the base case, reflecting current market immaturity as it is not yet generally considered “bankable” for senior debt underwriting purposes, but provides meaningful upside, accessible through aggregated smart assets, batteries, smart heat pumps, thermal stores, operating at neighbourhood scale. This revenue stream, generated through DSO demand response and smart tariff arbitrage, is not fully accessible to individual households acting alone, but becomes material at the scale of a neighbourhood SPV and is being piloted with National Grid Electricity Distribution in the West Midlands.
- Carbon credits, explored through the LNZA programme, represent a potential future revenue stream as voluntary and compliance carbon markets mature. These are not currently sufficiently liquid or standardised to underpin a financial model and should therefore be treated as upside optionality, rather than a base case assumption.

These monetary benefits are real and significant, but they are difficult to access without aggregation and insufficient on their own to close the financing gap without concessional public capital. They serve to reduce the size of the gap and, in the upside case, to generate returns that can reward equity investors and attract private debt.

1.3. Economic benefits that are real but do not directly fund the model

Retrofit generates a wider range of economic and social benefits that justify public investment and grant support, but which do not accrue directly to the financing model:

- Health outcomes: also explored through the LNZA programme, including reduced cold-related illness, respiratory conditions, and mortality from underheating; reduced incidence of damp, mould, and associated respiratory and cardiovascular disease; reduced indoor and outdoor air pollution with associated respiratory, cardiovascular and mental health benefits; and reduced overheating risk, which is an increasing concern as summer temperatures rise. The NHS cost savings associated with warmer, drier, better-ventilated homes are substantial but difficult to direct into an SPV revenue stream.
- Productivity: warmer, healthier homes reduce days lost to cold-related and respiratory conditions, with measurable economic benefits, again difficult to monetise, and
- Local economic activity: supply chain employment, skills development, and local multiplier effects from sustained programme spending.

These benefits provide strong public interest justification for the grant component of the capital stack, but sit outside the direct financing model.

1.4. The true cost problem: retail prices versus at-scale delivery

The current retail market for retrofit systematically overprices relative to what is achievable at programmatic scale. The average ASHP installation under the Boiler Upgrade Scheme costs approximately £12,500 (government BUS statistics). The market average after the grant is approximately £5,295 (Nesta/MCS data).

At-scale, vertically integrated operators demonstrate materially lower costs. Octopus Energy, the UK's largest heat pump installer, reports a typical installed price post-grant of £3,818, compared with a market average of £5,295: a differential of approximately 28%. The company's CEO has stated publicly that manufacturing investment reduced hardware costs from approximately £3,000 to £1,500 per unit.

Academic evidence from UKERC and the Universities of Edinburgh and Imperial (2024) confirms that costs in the UK have not materially reduced over the past decade, attributing this primarily to fragmented, low-volume demand that gives the supply chain no incentive to invest in efficiency improvements. The same research identifies that non-equipment costs, labour, installation practices, surveying and commissioning, offer the greatest scope for reduction through scaled, streamlined delivery. Countries that have successfully expanded their heat pump markets have seen supply chains respond with meaningful cost reductions; the UK has not yet created the demand conditions to trigger this response.

A further component of current retail cost that is rarely discussed is customer acquisition. Individual installers bear a high cost per sale when marketing to one household at a time: surveys, consultations, bespoke designs, and the significant proportion of marketing spend that does not convert. A neighbourhood programme markets once to many, dramatically reducing cost per installation and enabling the supply chain to invest in standardised delivery processes, shared workforce mobilisation, and bulk procurement. This feeds directly into the economies of scale argument in Section 3.

2. What Area-Based Retrofit Means

2.1. Definition

Area-based retrofit is coordinated, place-based delivery of energy efficiency and low-carbon heating improvements across a defined geography, combining multiple technologies and funding streams around a single neighbourhood or

district. It is the deliberate opposite of the current dominant model: household-by-household interventions, technology-by-technology grant programmes, and fragmented delivery that neither aggregates demand nor internalises system benefits.

In practice, an area-based approach brings together fabric improvements (insulation, ventilation, air tightness), low-carbon heat (e.g. heat pumps or heat networks), complementary technologies (solar PV, batteries, EV charging), and potentially enabling infrastructure (substation upgrades, grid reinforcement) into a single, coordinated investment programme across a defined neighbourhood of typically 500–2,000 homes, constituting a series of delivery phases over a period of time. It may also be aligned with other place-making activities, including decarbonisation of non-domestic buildings, adaptation measures and infrastructure investment.

2.2. The neighbourhood as the natural unit of delivery

The neighbourhood is not an arbitrary unit. It is the scale at which the economics of retrofit become most tractable, for several distinct reasons:

- Infrastructure economics: heat networks require a minimum density of connections to be viable, typically of the order of 500 connections or more. Shared ground loops for networked ground source heat pumps, community batteries, and microgrid infrastructure all have minimum economic scales that align with neighbourhood geography.
- Social dynamics: peer influence within communities accelerates adoption. Residents are more likely to participate when their neighbours have done so, when they can see working installations nearby, and when a trusted local organisation is delivering the programme. Neighbourhood delivery creates the social conditions for uptake that individual marketing cannot replicate.
- Planning logic: coordinated streetworks, including current unlooping programmes of DNOs, permissions, and contractor mobilisation across a defined geography reduce disruption, cost and delay relative to fragmented one-off installations.
- Infrastructure alignment: the neighbourhood maps naturally to the planning units that will define the low-carbon infrastructure transition, heat network zone designations under the Area Heat Network Zoning policy, DNO low-voltage substation catchment areas and reinforcement planning zones, and the long-term logic of phased gas grid decommissioning, where coordinated neighbourhood transition enables planned asset retirement rather than stranded infrastructure investment.

There is also a critical reframing that the neighbourhood unit enables. The national challenge is conventionally described as decarbonising approximately 29 million homes, a number that sounds both impossibly large and inescapably individual. The neighbourhood unit transforms this into a more tractable policy problem. Using a planning heuristic of approximately 1,000 homes per neighbourhood scheme, the national challenge translates to approximately 20,000–29,000 funded, replicable neighbourhood programmes. This is a large but finite number of efficient, standardised investments, fundable, deliverable, and replicable in ways that individual household grant programmes cannot be. The West Midlands alone, with approximately 1.2 million homes, represents approximately 1,200 such programmes.

3. Why Area-Based Retrofit Outperforms Individual Grant Programmes

3.1. Economies of scale in delivery

Aggregated, programmatic demand fundamentally restructures the economics of retrofit delivery. Shared civils, scaffolding and access, bulk procurement, and coordinated contractor mobilisation reduce per-unit costs relative to the one-off retail market documented in Section 1.4. More importantly, a guaranteed pipeline of work gives the supply chain the incentive and the security to invest in efficiency: to train and retain a workforce, to develop standardised designs, to procure equipment in volume, and to compete on unit cost rather than on individually negotiated retail margin.

A further dimension is shared asset design. Rather than installing the same equipment 1,000 times across individual homes, neighbourhood-scale design enables shared infrastructure where this improves the economics: a community battery serving 200 homes instead of 200 individual batteries; shared thermal stores; networked ground source heat pump ground loops. The same if not greater outcomes are achieved at materially lower per-unit capital cost. Shared asset design may also have a material impact on demand. Giving up limited cupboard space for a battery is a demand barrier – community batteries, where space outside the residences allows, avoid this issue.

Customer acquisition cost is also transformed. Individual installers face a high cost per sale when marketing to one household at a time, with significant survey, consultation, and design costs incurred even for proposals that do not convert. Neighbourhood-wide marketing and engagement replaces this with a single structured programme, dramatically reducing cost per installation.

3.2. System integration and new revenue streams

Combining retrofit, heat, generation and storage at neighbourhood scale creates smart local energy systems capable of capturing revenue streams that are inaccessible to individual households. DSO flexibility services, demand response revenues, and smart tariff arbitrage all require aggregated, dispatchable assets. A neighbourhood SPV can fully capture these revenues at a system level; an individual household cannot. Furthermore, community-scale battery assets can dispatch and shift energy more flexibly than individual batteries, providing residents with energy at times when individual storage would be depleted and generating additional value from flexibility markets. This system integration also reduces total capital required per unit of energy bill saved, as optimised multi-technology design displaces the need for some individual asset investment.

3.3. Demand aggregation creates an investable pipeline

Individual retrofit projects are too small, too heterogeneous, and too early-stage to attract institutional capital on acceptable terms. A neighbourhood approach creates projects of sufficient scale, typically £50m–£300m, with standardised structures, documented risk profiles, and replicable archetypes. This transforms a fragmented collection of grant-dependent household interventions into an investable pipeline where institutional debt can sit alongside equity.

3.4. Social and behavioural benefits

Trusted, place-based delivery models have demonstrated higher uptake rates than individual grant programmes and stronger long-term asset stewardship. Community governance of delivery vehicles creates local accountability and ensures that programme benefits are shared with residents rather than extracted by distant investors and provides the platform for continuous quality assurance to be built into the delivery and operational models. A key design

consideration is the minimum participation threshold required for the financial model to work: the comfort fee revenue model depends on sufficient aggregate uptake within each neighbourhood, and the national demonstration is designed to test what participation rates are achievable and what consumer offer characteristics drive them. This is not incidental to the financing model: a clear and compelling consumer proposition, covering fair financial benefits, robust affordability checks, and transparent billing (Energiesprong Comfort Plan research, 2025), is the primary driver of uptake, supported by community trust in the delivering organisation as a reinforcing factor for the service charge or comfort pricing structures that support revenue generation and the scale of sign up to drive the model.

3.5. Reduced government cost per tonne of carbon

The cumulative effect of scale economies, system integration, and supply chain rationalisation is a materially lower cost per tonne of carbon saved relative to individual grant programmes. This makes the CDEL FT ask proportionately more efficient: more carbon, more energy security, and more economic benefit per pound of public capital deployed.

4. The Missing Link: From Policy to Delivery

4.1. The structural gap in current policy

The Warm Homes Plan, published in January 2026, sets out an ambitious programme for residential retrofit backed by £15bn of total investment. The plan explicitly acknowledges the role of area-based delivery, noting that “evidence from existing programmes shows that trusted, place-based delivery models can improve resident engagement, raise installation quality, and build consumer confidence.” It commits the Department of Energy Security & Net Zero (DESNZ) to work with councils, DNOs and others to trial new approaches to area-based delivery, with further detail expected by Spring 2026.

The West Midlands proposal offers that further detail. It is a fully developed institutional and financial architecture for area-based delivery that is ready to move from concept to delivery, requiring only the capital instrument that the Warm Homes Plan has already identified as the appropriate mechanism: Financial Transactions.

The structural gap is not one of ambition or even of programme design. It is of institutional architecture. Local authorities have the community relationships, strategic oversight, and political legitimacy to convene area-based programmes. They lack the financial structure to aggregate capital at the scale required and to act as sponsors of investment-grade projects. The Neighbourhood Energy Transition Fund is the missing institutional layer that connects national capital to local delivery.

4.2. Market failure - what this proposal addresses

A CDEL FT deployment requires a clear market failure justification. This proposal addresses five distinct and well-evidenced market failures simultaneously:

- Information asymmetry: households cannot assess retrofit value, insurability, or whole-life cost; installers cannot forecast demand or justify workforce investment; investors cannot see a credible pipeline. No actor has the full picture required to make efficient investment decisions.
- Coordination failure: no single actor can internalise the system benefits of neighbourhood-scale delivery. Heat network developers, DNOs, housing providers and households each act independently, destroying value that coordinated action would create. The fund acts as a coordinator of last resort.

- Split incentives: landlords bear cost while tenants receive benefit; lenders do not reflect retrofit value in mortgage assessments; energy suppliers benefit from efficiency improvements but bear none of the delivery cost. These misalignments systematically suppress investment.
- Thin and immature markets: there are insufficient standardised, investment-ready projects to attract institutional capital on acceptable terms or stimulate supply chain investment. The pipeline is too fragmented and too early-stage to close without upstream investment in project development.
- Risk concentration: individual households cannot bear the upfront cost, technology performance risk, or 25-year+ asset management responsibility of a whole-house retrofit programme. Public capital is needed to absorb and redistribute these risks to actors better placed to manage them.

The Neighbourhood Energy Transition Fund, capitalised with CDEL FT, and supporting delivery model, directly addresses each of these failures: aggregating demand, coordinating stakeholders, standardising risk profiles, and creating the investment-grade pipeline that private capital and the supply chain requires.

5. How a Neighbourhood Energy Transition Fund Unlocks Area-Based Retrofit

5.1. The fund as institutional convenor and capital aggregator

The fund acts as the institutional layer that current policy lacks: aggregating national capital instruments (CDEL FT, NWF co-investment, GBE partnerships) with regional grant programmes (Integrated Settlement, Social Housing Fund and RP matched funding, Local Grant, the proposed successor programme to the Social Housing Fund and Local Grant from 2027/28) and private institutional finance around a coherent, place-based delivery pipeline. It creates the governance, the standards, and the project structures that allow each of these capital sources to participate in neighbourhood retrofit investment without bearing the risks they are ill-equipped to manage.

5.2. The Pipeline Development Facility and Energy Capital

The upstream project origination and development function of the fund in the West Midlands would be led by an enhanced WMCA Energy Capital team. Energy Capital already has the technical capability, institutional relationships, and strategic oversight to act as a credible convenor of neighbourhood retrofit programmes. In this model, however, it would require expanded capacity to fulfil a more active role: identifying and appraising potential neighbourhood programme areas, engaging DNOs (NGED is already engaged as a partner in this programme), housing providers and local authorities, structuring projects to investment readiness, and managing the pipeline through to financial close and into long-term operation.

This Pipeline Development Facility function addresses a fundamental problem: investors need to see real, investment-ready projects before they will commit capital. The gap between a neighbourhood area identified as suitable for retrofit and a project capable of receiving institutional investment is substantial, in terms of feasibility work, community engagement, stakeholder alignment, technical design, and financial structuring. The Pipeline Development Facility bridges that gap, converting policy intent into investable assets.

Energy Capital is currently funded as a directorate of the Combined Authority through a mixture of core funding and income from CDEL and RDEL grant programmes such as the Integrated Settlement and the Local Net Zero Accelerator. Under this model the project development capability would be paid for by the Neighbourhood Energy Transition Fund as capitalised costs on each project (essentially a top slice of the CDEL FT). Consideration may be given to whether the

pipeline development facility is spun out from the Combined Authority as a commercial, but not-for-profit, public-sector-owned company allowing it to operate in a more agile way and attract the required technical capability at competitive rates. York and North Yorkshire Combined Authority's LNZA programme has been examining precisely this transition, from enhanced in-house team to arms-length entity, in developing its Regional Operating Entity model, and the two LNZA programmes are sharing learning on the optimal governance structure for regional delivery functions within the national NETF.

5.3. The consumer offer and payment architecture

Each neighbourhood programme would be structured as a special purpose vehicle, a contractual delivery entity that receives capital from the fund, contracts with the supply chain for delivery, operation and maintenance, captures project revenues, services the capital structure and returns any excess surplus to the community. The SPVs would be directly owned by the fund's holding structure into which CDEL FT is injected. This preserves WMCA's fiscal position, avoiding consolidation onto stretched local government entity balance sheet, while creating investment-grade project entities capable of receiving and deploying capital at neighbourhood scale.

The programme offers residents a genuine choice of three payment routes.

1. The first is outright cash purchase, for households able to fund all or part of the works from savings, remortgage, or equity release.
2. The second is the comfort fee: a monthly service charge calibrated to the household's pre-retrofit energy bill, with the SPV owning and maintaining the assets under a performance guarantee, with asset maintenance and replacement included as standard.
3. The third is a Warm Homes Fund consumer loan, part of the scheme's £2bn consumer loans programme (£1.7bn Financial Transaction capital lent through intermediary lenders, with a £300m CDEL grant covering the interest rate subsidy so the household sees a subsidised or zero-rate product), where the resident owns the assets and captures the full energy bill saving, with the option to add an ongoing maintenance and replacement service.

Across all three routes, residents benefit from the same centralised offer: expert scheme design, coordinated project and supplier management, rigorous quality assurance, and potentially significant unit cost advantages from collective procurement of materials and installer capacity across the programme. These are benefits that no individual household procuring retrofit independently could access or afford.

Providing all three payment routes matters for aggregate uptake as well as accessibility. Research on the Comfort Plan model, funded by DESNZ and published in April 2025¹, identified a clear narrative, fair financial benefits, robust affordability checks, and transparent billing as the primary drivers of resident uptake, and found that the model only becomes financially viable at scale: across all commercial structures tested, positive returns require a minimum of approximately 400 homes enrolled cumulatively. Both findings reinforce the case for area-based delivery over individual programmes.

¹ Energiesprong UK (2025) *Project Case Study: Energiesprong UK Comfort Plan™*. Innovate UK / DESNZ. Published April 2025. Available at: <https://assets.publishing.service.gov.uk/media/68834c16cec9ccd515ae092c/Energiesprong.pdf>

The neighbourhood programme also acts as the bulk origination channel for all three payment routes simultaneously. The consumer loans scheme, for example, is currently envisaged to operate through individual lender relationships with individual households. A neighbourhood programme aggregates and pre-qualifies applicants, reduces lender customer acquisition costs substantially, and provides the scheme management infrastructure that de-risks lending at scale. The same origination advantage applies to the Boiler Upgrade Scheme and to the comfort fee offer. The programme does not simply add a delivery mechanism to each instrument; it materially improves the performance of each one of its channels.

The comfort fee works well across all rental tenures. For private landlords and social housing providers alike, the split incentive problem, where the landlord bears the cost of works but the tenant receives the energy bill benefit, has historically been a barrier to landlord investment. The comfort fee resolves this by converting the tenant's energy spend into a service charge paid to the SPV: the landlord bears no upfront cost and the tenant pays less than their pre-retrofit bill. The incentive structure works for both tenure types, though the motivation differs: private landlords respond to return and compliance drivers (EPC minimum standards), while social housing providers are additionally motivated by housing quality obligations and the potential for top-up grant funding through the Warm Homes Social Housing Fund, which can materially improve programme economics in social housing-heavy neighbourhoods.

Programmes offering genuine consumer choice achieve materially higher participation rates than single-option schemes. Households respond differently to risk, upfront commitment, and monthly obligation: some will prefer the certainty of outright purchase; others the cash-flow predictability of the comfort fee; others access to the consumer loans scheme. A multi-route architecture captures a wider share of the households in any given neighbourhood, improving programme economics for all participants.

5.4. Why the consumer offer works: the case for equity and public risk absorption

The three-route architecture also addresses a structural problem with consumer finance that is often overlooked in policy design. For a significant proportion of households, particularly those in the most energy-inefficient properties where retrofit need is greatest, even zero-interest finance leaves them net worse off: the loan repayment obligation, even at zero interest over a realistic term, will in many cases exceed the energy bill saving generated by the measures financed. The net effect is household impoverishment, not improvement. Rational households will, and should, decline finance that makes them poorer. This is not a behavioural problem or an awareness gap; it is structural. The comfort fee resolves this by making the service charge contingent on delivering a bill saving: residents pay less than their pre-retrofit bill, or they do not pay. The fund absorbs the performance risk that individual households cannot bear.

The three-route architecture also creates a self-selection mechanism for the able-(and willing)-to-pay market. Households who can fund upfront costs, through cash, remortgage, or equity release, do so, reducing the CDEL FT equity deployed per programme and allowing the same public capital allocation to reach more homes. Each pound of CDEL FT deployed in a three-route programme therefore reaches more homes and generates more supply chain volume than a comfort-fee-only model would achieve. The capital efficiency argument for the multi-route architecture is as important as the accessibility argument: it means the national programme can do more with the same public capital envelope.

One design gap requires government attention before the fund can operate at scale: there is currently no mechanism for neighbourhood programme SPVs to make collective BUS applications or to originate consumer loans on behalf of enrolled households. Both instruments are designed for individual household access. Energiesprong Comfort Plan research (DESNZ-funded, April 2025) confirms that the neighbourhood model only becomes financially viable at a

minimum of approximately 400 enrolled homes cumulatively. Individual household access to both instruments is a practical constraint on reaching that threshold. DESNZ should treat collective enrolment mechanisms, enabling SPV-level BUS applications and loan origination, as a priority programme design task alongside the fund structure.

5.5. The West Midlands as national demonstration

The West Midlands has the strongest institutional foundation for a National Demonstrator Allocation of any region in England. WMCA's Net Zero Neighbourhood programme provides proof-of-concept at project level, with early pilot areas including Castle Vale in Birmingham and Brockmoor in Dudley. Work under the Prospering from the Energy Revolution (PFER) programme established foundational thinking on aggregated local energy investment in the region which has been further built upon in the Local Net Zero Accelerator programme. Energy Capital provides the institutional home for the delivery function, and the Integrated Settlement provides the grant capital to anchor the fund's public investment layer.

The NETF is not a West Midlands regional fund. It is a national investment fund, capitalised at national scale, with regional programme allocations and regional delivery. WMCA is seeking the role of anchor National Demonstrator, the first and most developed regional programme within the national fund, with the fund designed from the outset to accommodate further National Demonstrators and an Open Allocation for other qualifying regions as their pipelines mature. The national NETF operates in two modes. The National Demonstrator Allocation is a ring-fenced capital commitment to an initial cohort of regions that will work through a defined set of proof points on behalf of the whole programme, generating the structured evidence base that makes wider replication possible at full confidence. The Open Allocation is available to any qualifying region or local authority with the delivery capability, existing programme pipeline, and institutional readiness to engage with the fund as a delivery partner. Together, the two tiers mean the fund can start with the most advanced regions and grow without re-litigating the core design each time a new region comes in. The national programme would answer five proof points that cannot be resolved in advance of demonstrator delivery: resident response to the consumer offer across household types and tenures; institutional debt terms and the minimum equity cushion required to attract private co-investment; the property-linked payment mechanism, including the Local Land Charge pathway, enforceability on property sale, and interaction with mortgage lending; pricing approaches across tenures and neighbourhood archetypes; and supply chain response to programmatic, multi-year demand. WMCA requests DESNZ engagement to confirm the National Demonstrator Allocation and initiate joint fund design, as set out in Section 9.

6. The Fund as Integrating Delivery Architecture

A neighbourhood programme does more than coordinate delivery. It coordinates capital. Multiple government funding streams are currently designed for the same homes but cannot reach them through the same channel. Most homes therefore receive either one intervention or nothing. The Neighbourhood Energy Transition Fund provides the integrating delivery architecture that allows these streams to work together in the same place, at the same time, for the same households.

6.1. Existing grant programmes as the base layer

Existing grant programmes can be drawn down as the base layer of the gross capital stack within each neighbourhood scheme, reducing the net financing requirement before the fund provides repayable capital for the balance. The Warm

Homes: Social Housing Fund and RP matched funding applies to social rented homes within the programme area. Warm Homes: Local Grant and the proposed successor programme from 2027/28 apply to fuel-poor qualifying households across all tenures. The Boiler Upgrade Scheme applies to owner-occupiers and private rented properties installing heat pumps.

The BUS is particularly significant in this context. The scheme has been extended, with annual installation rates below the level originally targeted and substantial CDEL budget remaining to deploy. Area-based delivery through a neighbourhood programme could provide a bulk origination pathway, households enrolled collectively rather than applying individually, that the BUS currently lacks. This would require DESNZ to design a mechanism for programme-level BUS deployment that does not yet exist. The West Midlands demonstrator is the appropriate vehicle to develop and test it, and the demand-side benefits of doing so are material for a scheme where individual uptake has proved the binding constraint.

6.2. Two Warm Homes Fund instruments in the same neighbourhood

Beyond existing grants, two Warm Homes Fund Financial Transaction instruments can be deployed in the same neighbourhood simultaneously. The £2.7bn financial innovation pot within the £3.3bn provides the equity capital deployed at fund level. The £2bn consumer loans programme (£1.7bn FT plus £300m CDEL grant) is available as a consumer payment route within each SPV, with the neighbourhood programme acting as the origination and management channel. Neither instrument is currently designed to work alongside the other or alongside existing grant programmes. The Neighbourhood Energy Transition Fund structure makes them do so, using the capital stack to deploy grant, fund equity, and consumer loans within a single coordinated programme.

The SPV structure also creates a mechanism for community equity participation. Residents and community groups within the programme area can be offered a stake in the SPV itself, investing alongside the public equity and private debt to share in the financial returns generated by the programme over its operational life. Models such as those operated by Abundance Investment provide a tested framework for this type of community co-investment. Community equity serves multiple purposes: it gives residents a direct financial stake in the programme's success; it strengthens local acceptance and long-term engagement; and it diversifies the capital base of each SPV, reducing the public capital required per programme. Community equity stakes are expected to be small in the initial demonstrator phase but can grow as the model matures and investor confidence in the revenue streams is established.

6.3. The Local Power Plan and the Warm Homes Plan: overlapping scope

The Local Power Plan and the Warm Homes Plan were developed as distinct policy programmes, each with its own ministerial lead and delivery team. In practice their scopes are not two separate circles; they are a Venn diagram. The Local Power Plan incorporates Smart Local Energy Systems: integrated neighbourhood-scale programmes combining local generation, storage, demand management, and community ownership of distributed energy assets. The Warm Homes Plan is focused on reducing energy bills, including domestic rooftop solar and battery, building fabric measures, and supporting households to access affordable low-carbon heat. Area-based decarbonisation is precisely where these two programmes overlap: a neighbourhood retrofit scheme that also installs rooftop solar, community batteries, and grid flexibility assets serves the objectives of both simultaneously.

Where neighbourhood schemes include these generation and storage components alongside fabric retrofit, the LPP and the Warm Homes Fund could invest in the same SPV, with the Neighbourhood Energy Transition Fund structure

providing the regional aggregating vehicle that both programmes require. LPP capital reaches organised neighbourhood programmes rather than isolated projects. WHF capital is accompanied by generation assets that improve the whole-system economics of each scheme. And both programmes benefit from the community ownership and stewardship model that the SPV structure enables. WMCA is already a named GBE partner authority under the Local Power Plan and is seeking agreement with GBE to trial and deliver area-based approaches. The demonstrator should be designed from the outset to test this co-investment model and to generate evidence on how the two programmes can be most effectively aligned at the point of delivery.

7. The Case for CDEL Financial Transactions from the Warm Homes Plan

7.1. The Warm Homes Plan Financial Transactions allocation

The Warm Homes Plan, published January 2026, commits £5bn of Financial Transactions, (repayable, capital-preserving instruments) rather than conventional grants, with the stated intention that investment is recycled over time. Of the £5bn: £1.7bn is allocated to low-cost consumer loans (paired with £300m CDEL grant to form a £2bn consumer loans programme); £600m is directed at social housing retrofit; and £2.7bn is described as being for financial innovation in the retrofit sector. The latter two together, £3.3bn, are the pot within which the NETF equity instrument would sit. This is a distinct allocation from the separate £2.7bn Boiler Upgrade Scheme budget, with which it should not be confused.

This allocation constitutes explicit government recognition that the financing architecture for residential retrofit must go beyond grant. It is the pot from which this proposal seeks an allocation, and the West Midlands model is a direct operational response to the intent behind it.

7.2. Why equity rather than debt

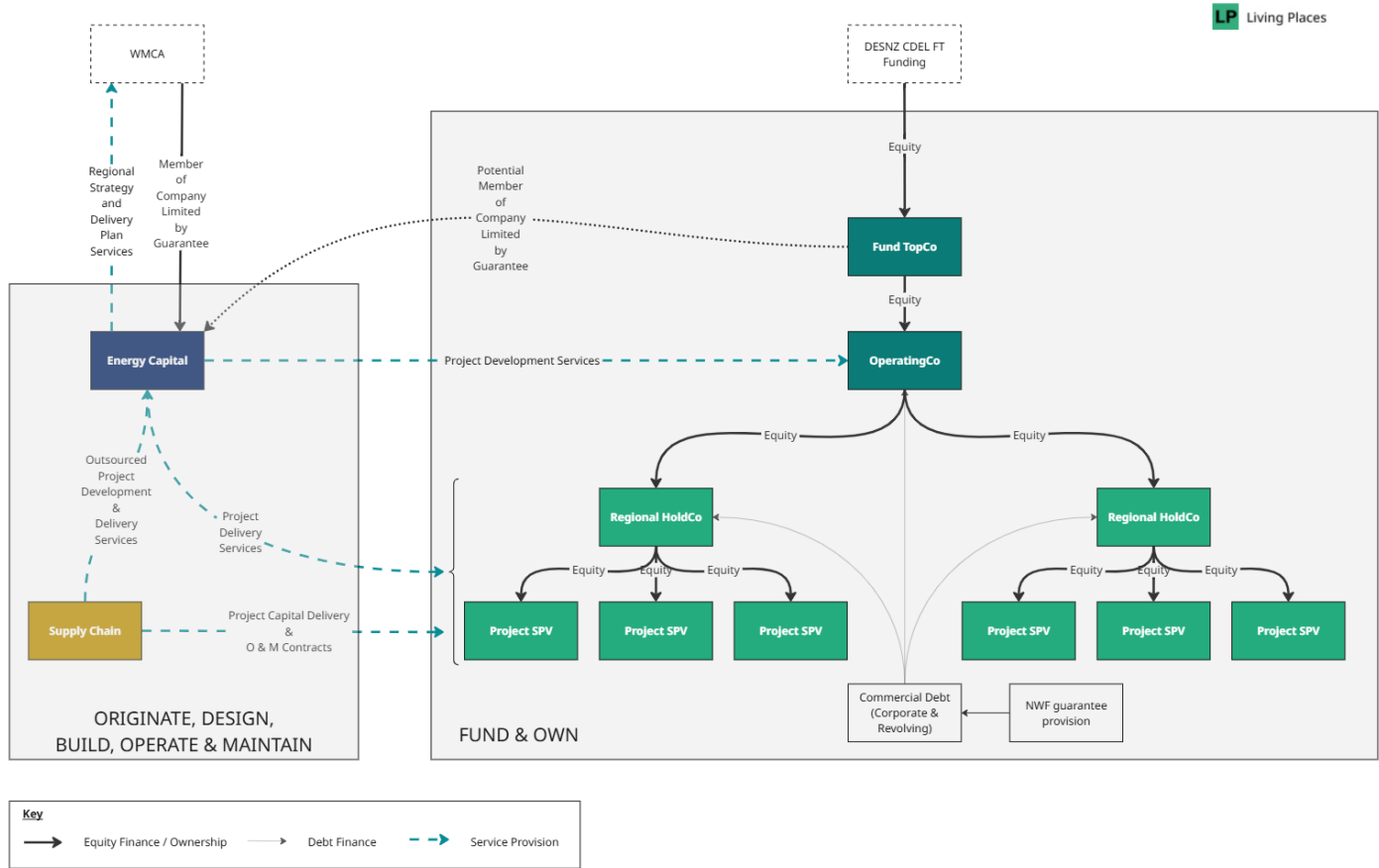
CDEL Financial Transactions can be deployed as either loans (senior or subordinated debt) or equity-aligned instruments. For this programme, equity is the more appropriate instrument for several reasons:

- Senior debt creates fixed repayment obligations. For SPVs in the early stages of a national demonstration, where revenue assumptions are being tested and technology performance is being proven, locking in debt service ahead of revenue certainty increases delivery risk and may deter private co-investors from participating alongside public capital.
- Equity absorbs first-loss risk. By taking an equity position, CDEL FT capital sits below private debt in the repayment waterfall, making the SPV significantly more attractive to private sector debt providers. This is the mechanism by which a relatively modest equity injection mobilises a larger private capital layer.
- Equity aligns return with performance. An equity instrument rewards the programme for outperforming its base case assumptions, creating incentives for operational efficiency and cost reduction that a fixed-rate debt instrument does not.
- Equity does not require repayment on a fixed schedule. This is particularly important given the long operational lives of retrofit assets, typically 20–30 years (extendable with appropriate asset maintenance and replacement contributions factored in), and the time required for revenue streams to mature.

This approach is consistent with the FT Control Framework's explicit provision for concessional or patient returns where a clear market failure justification exists. The market failure case is set out in Section 4.2.

DESNZ's own Call for Evidence (footnote 11) acknowledges that local and strategic authorities cannot be direct recipients of Financial Transactions without balance sheet impact. The proposed structure, illustrated below, addresses this directly: DESNZ would deploy CDEL FT as equity into an independent fund holding vehicle, with WMCA acting as programme sponsor rather than equity investor, keeping the capital off WMCA's balance sheet and within a structure designed for repayable deployment. This is not a workaround; it is the solution to the structural constraint that DESNZ has itself identified as the primary challenge for area-based FT deployment.

Figure 1: Illustrative Fund Structure



7.3. The capital evolution trajectory: from public demonstration to private market

The equity structure enables a capital evolution trajectory that a debt deployment cannot achieve. The programme is designed to move through three phases, with the mix of public and private capital shifting progressively as the model is demonstrated and investor confidence is established.

Phase 1 – Demonstration. Grant base layer (non-repayable) combined with CDEL FT equity (first-loss, concessional returns), limited private institutional debt, and small community equity stakes. CDEL FT does the heavy lifting because the model is unproven: consumer uptake rates, service charge revenue performance, and supply chain cost reduction are all uncertain and must be demonstrated before private capital will commit on acceptable terms.

Phase 2 – Scaling. As consumer uptake rates are proven, service charge income streams are demonstrated, and economies of scale in delivery are established, patient private institutional debt becomes available alongside the public

equity on improving terms. Debt leverage increases, reducing the public capital required per unit of delivery. CDEL FT capital deployed in Phase 1 begins to be recycled into new programmes or new regions. Community equity stakes grow as investor confidence builds.

Phase 3 – Maturity. Private sector patient equity, infrastructure funds, pension funds, impact investors, participates alongside or refinances the public equity. Grant programmes remain for the deepest interventions throughout. CDEL FT is progressively recycled to new regions as the Open Allocation expands. Public involvement shifts from capital provision to governance, standard-setting, and replication support.

This trajectory is only achievable if the Phase 1 instrument is equity, not debt. A debt deployment would generate a return on a fixed schedule but would not create the track record, governance standards, or demonstrated revenue streams that attract private equity in Phase 3. The equity structure is not a concession to risk: it is the mechanism by which public capital creates the conditions for its own progressive replacement.

7.4. Why now?

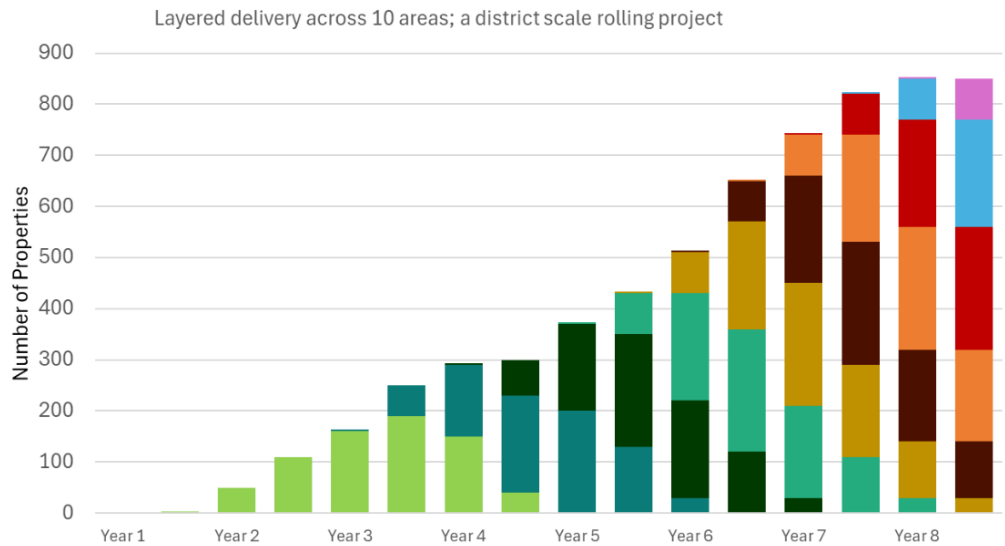
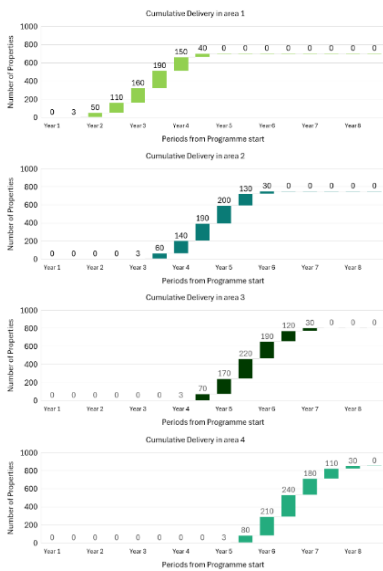
Waiting for pipeline development to be ‘ready’ before providing capital funding, reflects a misunderstanding of how area-based retrofit programmes are built and delivered. To advance portfolios of area-based projects into deployment requires upfront and committed capital allocation with project development funding embedded as a top slice of capital, to give the certainty needed for residents to sign up, and the concrete signal for mobilisation of the supply chain.

While much work has been done nationally to identify potential area-based retrofit demonstrators, not least in the West Midlands, these projects are generally not quite ready for capital deployment. A potential concern therefore is that this programme might be more suited to CDEL FT deployment in 12 to 18 months when the project pipeline is more mature. But this misses the point of how these projects are designed and delivered. Area-based programmes are perpetually 12-18 months away from needing capital funding, until they have capital funding.

Advancing the area-based approach has been held back by stop-start RDEL grant funding and the strain on local government finance which doesn’t acknowledge a fundamental issue in how the design and delivery of area-based retrofit works in practice. Those two elements (design and delivery) do not neatly follow each other. There is not an isolated RDEL-funded design phase which leads to a Full Business Case which then unlocks a subsequent CDEL or CDEL FT funded delivery phase, rather the two are interwoven. Sign up to a programme by residents is driven by the knowledge that the programme can actually deliver. If the capital is not there for delivery the engagement process is an empty discussion and many communities have been burnt by this process of overpromising engagement with ultimately limited delivery.

The reality of running a programme is that desktop analysis is carried out on potential technical solutions for a whole neighbourhood at once, engagement activity ramps up and early adopters within the community are identified that can be aggregated into delivery cohorts, detailed retrofit assessments are carried out per cohort and then delivery is commenced while the engagement and design process continues with the rest of the neighbourhood. Delivery happens in practice in wave after wave of cohorts across the area and then subsequently into neighbouring areas, creating a rolling design and delivery programme as illustrated below, which would be replicated across the region.

Figure 2: Rolling Delivery Programme



By providing CDEL FT funding as equity into the fund vehicle the combined design and delivery work can be accelerated in the knowledge that the capital funding is there to deliver and scale up. The conversation shifts from “what we could do” to “what we will do”. The West Midlands Net Zero Neighbourhood programme provides a number of existing pilot projects where technical design and community engagement is already well underway. In Brockmoor in Dudley, c. 45 homes have already been delivered and an (under-funded) phase 2 targeting 600 homes is underway. In Castle Vale in Birmingham detailed techno-economic and investment modelling has been done on the deployment of solar, battery, fabric and heat decarbonisation in 850 homes. The projects are ready to take capital imminently, but that momentum is at risk of petering out.

The West Midlands programme has reached precisely this inflection point. The institutional knowledge, community relationships, and supply chain partnerships that make a programme like this possible are not preserved in a holding pattern. They are actively maintained by people doing work. Without a confirmed capital commitment, programme team contracts expire, experienced staff move to other opportunities, community goodwill built through engagement erodes, and supply chain partners redirect capacity elsewhere. The cost of rebuilding these relationships and capabilities is substantial and largely invisible in any formal business case. The West Midlands programme has reached a stage where this risk is real and immediate. Whilst at the same time, there is an immediate opportunity. A proportion of the Warm Homes Plan Financial Transactions may be deployable in the current financial year, ahead of the main deployment window from April 2027. The West Midlands programme, with detailed technical and investment modelling already complete and pilot SPVs ready to form, is better positioned than any other programme in England to deploy capital productively in that window, accelerating early cohort delivery while the full fund structure is being finalised.

7.5. How much?

The rolling programme model illustrated above, combined with the initial fund stack modelling, suggests that each delivery programme originating in a single location would ramp up to deliver 2,000 homes across the first 5 years and create the momentum for a further 4,500 homes delivered in the following 3 years.

Providing the CDEL FT funding for this first 5 year phase for 10 such delivery programmes, distributed across the region, would deliver 20,000 homes in total. Based on our initial fund stack modelling this would constitute a £640m gross capital programme made up of £210m of existing grant programme funding (WH:SHF, WH:LG, BUS), £90m of leveraged private debt funding, unlocked by £340m of CDEL FT. These figures are before any allocation to the project development facility, which would be funded from a topslice of the CDEL FT commitment.

The NETF is designed as a national fund from the outset, not a West Midlands fund that evolves into a national one. The West Midlands programme is the anchor National Demonstrator allocation within that national structure, the most advanced, and the one that will generate the primary evidence base, replication templates, and investor track record. Other qualifying regions will access the fund as further National Demonstrators or through the Open Allocation as their pipelines mature, working with the same fund governance, legal frameworks, and SPV template developed through the demonstrator phase. This approach supports a proportionally larger aggregate allocation from the £3.3bn innovative finance and social housing pot and produces a more complete national evidence base than any single demonstrator could provide.

7.6. The funding stack

Capital Layer	Source and Role
Grant (non-repayable)	Warm Homes: Social Housing Fund (plus RP matched funding), Warm Homes: Local Grant, the proposed successor programme from 2027/28, and Boiler Upgrade Scheme. Covers the highest-cost interventions: deepest fabric improvement, social housing, fuel-poor households. Not repayable; absorbed by the programme.
Equity - CDEL FT (concessional)	Patient, equity-aligned FT capital providing the risk-absorbing foundation of the capital stack. Returns are concessional in the base case; above-gilt in the upside case.
Debt - private sector (leveraged)	Institutional debt, potentially supported by NWF guarantee, sitting above the equity layer. Limited initial debt leverage in the base case; leverage approaching 1:1 in the upside case.

Two financial scenarios have been modelled:

- Base case: conservative income and cost assumptions, reflecting the uncertainties inherent in a first-of-kind demonstration. Equity returns are positive but below gilt yield; debt leverage is limited at initial stages. This is explicitly consistent with the FT Control Framework’s provision for concessional returns where market failure is being addressed.
- Upside case: capital economies of scale and improved operating performance, as the programme matures and supply chains respond to programmatic demand. Equity returns move above gilt yield; debt leverage approaches 1:1. This scenario demonstrates the self-sustaining trajectory of the model over time.

7.7. The leverage effect

The fundamental fiscal argument for equity-aligned FT over grant is leverage. Grant is consumed, £1 of grant delivers £1 of investment, with match funding requirements to date largely confined to registered social providers. Equity-aligned FT capital, by sitting below private debt in the capital stack, mobilises private co-investment. Even at limited initial

leverage ratios, every pound of FT equity supports more than one pound of total investment. As the programme matures and performance is proven, leverage ratios improve, increasing the total investment deployed per pound of public capital, and the recycled FT capital can be redeployed into subsequent neighbourhood programmes.

7.8. ONS classification risk: Public Sector Corporation versus Central Government

The ONS sector classification of the fund vehicle is a material question for the fiscal case and should be addressed proactively. The structural options available and the detailed classification analysis – including the two-stage control and market producer test, the equity and CLG routes, and the specific questions for ONS pre-engagement – are set out in full in Section 8 (NETF Fund Implementation: Structural Options and the Financial Transaction Question). In summary: the TopCo must be structured to avoid being classified as Central Government, which we believe is possible. Otherwise there is a genuine question as to whether the deployment qualifies as an FT at all in National Accounts terms, which is why early informal ONS pre-engagement is an essential step before fund design is finalised.

7.9. Why this is credible: learning from what has not worked

The Green Deal is the obvious historical reference point. It failed for specific, structural reasons: high interest rates applied to individual household loans without supply chain coordination, no aggregation of demand, and a consumer proposition that did not adequately reflect the benefits. None of these structural features apply to this model.

The distinguishing features of this proposal are: concessional equity returns rather than commercial interest rates; neighbourhood aggregation rather than individual household loans; integrated supply chain contracting rather than fragmented installer markets; community governance of delivery vehicles; and the addition of DSO flexibility revenues that did not exist as a viable income stream when Green Deal was designed. These are not incremental improvements; they are structural differences in the model.

8. NETF Fund Implementation: Structural Options and the Financial Transaction Question

The NETF proposition depends on CDEL Financial Transaction capital being deployed into the fund vehicle and counting as a financial transaction in National Accounts terms. This section sets out the proposed fund structure, the classification argument that supports FT treatment, and the questions that should be put to ONS through informal pre-engagement before the structure is finalised. The analysis reflects our current understanding of the relevant frameworks and is the starting point for discussion with DESNZ, HMT and ONS rather than a definitive legal or accounting opinion.

8.1. The proposed fund structure

The proposed structure is a fund TopCo incorporated as a company limited by shares. Government deploys CDEL FT as majority equity via NWF as the designated Public Financial Institution. GBE, once its formal PuFlin designation is confirmed, provides an alternative or complementary deployment route and may co-invest in programmes combining retrofit with local energy generation aligned with the Local Power Plan.

Four structural features are critical to the ONS classification argument:

Independent governance.

The TopCo's constitutional documents establish genuine operational independence from government: an independent board with a majority of non-governmental directors, investment decisions delegated to a commercially contracted fund manager with an independent investment committee, and no government right to direct individual investments or veto programme parameters. Government's legitimate interests, capital return, programme evidence, policy alignment, are protected through the shareholder agreement, not through board control. This independence is the structural distinction between the NETF TopCo and the policy-directed development banks (NWF, BBB, DBW) that were reclassified to Central Government by ONS in September 2025 because government directed their investment policy.

Commercial management fee structure.

A commercially contracted, independent fund manager charges management fees against assets under management at rates consistent with comparable infrastructure and impact funds (1–2% per annum of committed capital). These fees are set by reference to the competitive market, not determined by policy, and constitute sales at economically significant prices in ESA 2010 terms. The fee structure is designed to cover 100% of TopCo operating costs, with fees above operating costs subject to a cap or shared return structure and surplus recycled to the programme rather than accumulated as profit.

Private sector equity co-investment.

The fund structure explicitly contemplates a minority private sector co-investment stake, and live engagement with at least one institutional investor is underway. Private sector equity is not required at inception, the demonstration phase exists to generate the track record that will attract private sector equity over time, progressively diluting the government stake. Where a private sector co-investor does participate from inception, its stake materially strengthens the ONS classification argument by introducing a private sector principal with substantive governance rights.

Private institutional debt.

A modest amount of private institutional debt is raised at the Operating Company level, subordinate to the equity and not government-guaranteed. UK banks have engaged with the programme in relation to this layer. This is not a condition of the ONS classification but strengthens the commercial credibility of the model.

8.2. The ONS classification argument

The ONS classification test proceeds in two stages. The structure above is designed to support a Public Financial Corporation classification under either route.

Stage one: control test

Under ESA 2010, control is assessed by reference to the ability to direct general corporate policy. Board independence and the delegated investment mandate weaken the control signal in all cases. Where a private sector co-investor participates, that stake further weakens it by introducing a private sector principal whose consent is required for constitutional changes. Where private sector equity is present from inception, the entity may be classified as private sector at stage one without proceeding to the market producer test. Where government equity constitutes all or substantially all of the initial capital, the governance mitigations are the primary argument, and the market producer test at stage two becomes the principal classification route.

We acknowledge this involves subjective judgement and that a government majority equity stake creates a strong prior towards a control finding. The structural mitigations are designed to make a non-control finding available to ONS as a defensible conclusion, not to guarantee it.

Stage two: market producer test

If ONS finds government control, classification depends on whether more than 50% of operating costs are covered by sales at economically significant prices. The management fee structure is designed to meet this test decisively: fees cover 100% of operating costs, are set at commercial market rates, and are charged against AuM in the standard manner of commercial asset managers. Prices are economically significant — set by reference to the competitive market for infrastructure fund management, not determined by policy.

The precedent

The structure has a clear precedent. When the UK government held an 84.4% majority stake in NatWest Group (formerly RBS) from October 2008, ONS classified the entity as a Public Financial Corporation — not Central Government — because NatWest remained a market producer despite majority government ownership and control. Lloyds Banking Group was similarly classified as a PFC during the period of significant government shareholding from 2009 to 2014. These precedents establish that majority government equity ownership does not preclude PFC classification where the market producer test is met. Under either classification route, the NETF TopCo sits outside general government in National Accounts terms — the necessary condition for FT treatment.

8.3. The four conditions for FT treatment

For a deployment of CDEL FT from NWF into the NETF TopCo to count as a financial transaction, all four of the following conditions must hold:

Condition	Requirement
Condition 1	The deploying entity must be a general government body in ONS terms. NWF has been classified by ONS as Central Government. This condition is met. If GBE were the deployer, its ONS classification has not yet been determined and this condition would be uncertain.
Condition 2	The receiving entity, the NETF TopCo, must be outside general government: classified as either a public sector corporation (PSC) or private sector. If the TopCo is classified as Central Government, the deployment consolidates out of the National Accounts as an intra-general-government transfer. No financial asset is recognised, the capital scores as expenditure, and the FT instrument fails entirely.
Condition 3	The government’s relationship with the TopCo must either (a) not constitute control in ESA 2010 terms, in which case the entity is private sector and Condition 2 is met; or (b) if control is found, the entity must earn more than 50% of its income from market sales, in which case it is classified as a PSC and Condition 2 is met. If control is found and the market producer test is not passed, the entity is classified as Central Government and Condition 2 fails.
Condition 4	The deployment must meet the Financial Transaction Control Framework requirements: delivered by a designated public financial institution (NWF qualifies), accompanied by a business case and FT checklist, and with a credible returns basis (concessional returns are explicitly permitted where market failure justification exists).

Conditions 1 and 4 are within our control, given NWF's involvement and the market failure case already set out in Section 4. The analysis above addresses Conditions 2 and 3. A full structural proposition and classification argument is set out in an accompanying note (ONS Classification and FT Eligibility, Living Places / WMCA, June 2026).

8.4. Questions for ONS pre-engagement

The following specific questions should be put to ONS through informal pre-engagement before the fund structure is finalised. ONS will not pre-commit to a classification, but early engagement reduces the risk of designing a structure that fails the classification test after capital has been committed.

Question 1. Under Route 1b: would a fund TopCo that earns more than 50% of its operating costs from commercially-priced management fees charged to SPVs be considered a market producer under ESA 2010, even if government holds majority equity?

Question 2. Under Route 2: would a CLG with NWF as one of multiple members – including at least one non-governmental body – be considered under government control under ESA 2010 criteria? What membership structure and constitutional arrangements would be required to break the control finding?

Question 3. Under Route 2: is a management fee structure covering more than 50% of operating costs sufficient to meet the market producer test in a CLG with an asset lock, given that surpluses are recycled into further programme investment rather than distributed?

Question 4. On the fundamental FT question: if the TopCo is classified as Central Government rather than PSC or private sector, does the deployment of CDEL FT capital into it qualify as a financial transaction in National Accounts terms, or is it reclassified as a capital grant? WMCA understands this question is not yet resolved among officials and requests DESNZ facilitate ONS and HMT engagement as a priority.

Question 5. Where NWF deploys CDEL FT as equity into the TopCo and separately provides a commercial guarantee product on private sector debt raised at the Operating Company level, would the guarantee be treated as a separate CDEL FT deployment eligible for recycling, or would it be scored as contingent CDEL DEL expenditure at the point of issuance? Would the combination of equity and guarantee affect the ONS sector classification of the TopCo?

9. Recommended Next Steps

The following next steps relate to WMCA's role as anchor National Demonstrator within the national NETF. WMCA has invested four years in building the institutional infrastructure and project pipeline through the Local Net Zero Accelerator and is the most advanced region in England in terms of delivery readiness. The national fund is designed to accommodate other qualifying regions as further National Demonstrators or through an Open Allocation as their pipelines develop.

WMCA requests the following from DESNZ:

- **CDEL FT allocation:** A National Demonstrator Allocation of approximately £340m CDEL Financial Transactions from the £3.3bn Warm Homes Plan innovative finance and social housing pot to equity-capitalise the NETF's West Midlands programme.

- **Fund design:** Engagement in a joint fund design process involving WMCA, Living Places, DESNZ, GBE and NWF to agree on the capital stack structure, governance design, FT compliance framework, and the criteria and mechanism for National Demonstrator Allocations and Open Allocation for qualifying regions.
- **Payment mechanism:** Seek cross-departmental DESNZ/MHCLG agreement to pursue a property-linked payment obligation (PLPO) via Ministerial order under Section 1(1)(e) of the Local Land Charges Act 1975 for the demonstrator phase, enabling the payment mechanism to be tested without primary legislation. Legal analysis commissioned by Living Places from Burges Salmon LLP confirms this pathway is viable. The PLPO mechanism is one of the five core proof points of the National Demonstrator phase and must be confirmed as a cross-departmental priority before FBC stage.
- **ONS classification:** Support for early and informal ONS pre-engagement to establish the fund's likely sector classification before formal structuring proceeds.

WMCA proposed commitments:

- **Expanded Pipeline Development Facility:** scope additional resource requirements, building on existing retrofit managed support capacity and capabilities and redeploying resources appropriately.
- **Pipeline identification:** undertake a systematic identification of areas with more favourable financial characteristics for this model, in addition to the existing Net Zero Neighbourhood cohort, which has focused on fuel-poor areas where comfort upgrade rather than bill saving may be the primary consumer benefit. These include areas with lower incidence of underheating (where energy bill savings, not just comfort upgrades, drive the consumer offer), more homogeneous housing archetypes with high energy saving potential per pound of capital invested, and stronger potential for grid flexibility revenue generation.
- **Advance early capital deployment:** test the legal, governance and financial structures for early projects, which could include Castle Vale (Birmingham) and Brockmoor (Dudley), in advance of full fund launch.
- **Supply chain engagement:** test market appetite and indicative pricing for a programmatic, multi-year delivery contract.

10. Key Learnings from the National Demonstration

The Neighbourhood Energy Transition Fund is designed from the outset as a national demonstration: a structured evidence-generating programme with explicit design for replication. The National Demonstrator phase is organised around five primary proof points – the questions that cannot be answered in advance of demonstrator delivery and whose answers are required before the Open Allocation can operate at full national confidence. The broader learning framework below builds on these five proof points with additional evidence objectives that will strengthen the national programme over time. The following are the questions the programme is designed to answer:

- **Resident response to the consumer offer:** what proposition, pricing, comfort framing, service model, tenure arrangements, drives uptake across different household types? What are refusal rates, and what neighbourhood-level factors influence them? How does resident response vary between fuel-poor cohorts (where comfort upgrade rather than bill saving dominates) and broader market cohorts?
- **Investor engagement and debt leverage terms:** at what terms and with what credit enhancements will institutional debt providers participate alongside public equity? What is the minimum equity cushion required to attract private co-investment? Does a NWF guarantee materially improve terms, and if so by how much?

- **The payment mechanism:** testing the Local Land Charge mechanism, established via Ministerial order for the demonstrator phase, with potential to scale nationally without primary legislation, including its enforceability on property sale, consumer acceptance, interaction with mortgage lending and property valuation, and collection mechanics. This is the mechanism most likely to resolve the upfront cost barrier for owner-occupiers at scale. Legal analysis commissioned by Living Places from Burges Salmon LLP for the Bristol Mission Net Zero programme identified this as the most practical near-term pathway. Soft testing with two high-street mortgage lenders found the mechanism potentially acceptable, an important early signal of lender appetite. The demonstrator is designed to generate the evidence base needed for national roll-out.
- **Pricing approaches:** what service charge or comfort pricing structure is acceptable to households, recoverable over the asset life, and sufficient to support the financing model across different neighbourhood archetypes? How do pricing approaches need to differ between social housing, private rented, and owner-occupied tenures?
- **Supply chain response to programmatic demand:** does a guaranteed multi-year pipeline in fact drive cost reduction? By how much, over what timescale, and under what procurement conditions? What investment is the supply chain willing to make in workforce, standardisation, and equipment procurement in response to demand certainty?
- **DNO engagement and flexibility revenues:** can neighbourhood-scale smart assets generate the flexibility income assumed in the financial model? What commercial and regulatory structures are required, and what is the realistic timeline for these revenue streams to become material?
- **Multi-tenure delivery governance:** what consent mechanisms, legal structures, and governance arrangements work across mixed-tenure neighbourhoods? How are decisions made and disputes resolved when social housing, private rented, and owner-occupied properties are included in the same programme?
- **Replication readiness:** which elements of the model, legal structures, SPV templates, procurement frameworks, community engagement approaches, financial models, can be standardised and transferred to other combined authorities without significant re-design? What are the minimum institutional prerequisites for replication?

WMCA proposes to work with DESNZ, as we have through the Local Net Zero Accelerator, to share learnings and iterate the programme. Consideration could be given to a formal follower cohort of regions with additional allocated capital to replicate the approach. WMCA and Living Places are actively engaged with a number of authorities already, who are exploring parallel programmes informed by the West Midlands model, and would be willing to provide active support to any authority seeking to replicate the approach.

Appendix A: CDEL Financial Transactions - A Primer

What are CDEL Financial Transactions?

Capital Departmental Expenditure Limit Financial Transactions (CDEL FT) is a specific category of public capital spending used to provide loans, equity injections, or other repayable finance to organisations outside central government. Unlike conventional CDEL grant, FT capital must be repaid to HM Treasury, either as loan repayments or dividend income, and is therefore described as ‘recycled’ rather than consumed. FT is scored against the Public Sector Net Financial Liabilities (PSNFL) measure rather than Public Sector Net Borrowing (PSNB), reflecting its asset-creating nature.

FT capital is used across a range of government programmes: the student loans system, the British Business Bank, and, most relevantly for this proposal, elements of the National Wealth Fund, Great British Energy and Warm Homes Plan financing. It has been allocated by DESNZ for retrofit precisely because the government recognises that grant alone cannot mobilise private capital at the required scale.

Key constraints relevant to this proposal

Constraint	Implication for this proposal
Must be repayable	The fund structure must include a credible basis for capital return to HM Treasury, even if returns are concessional. The base case financial model provides this basis; the equity structure preserves the recycling logic.
Cannot be used as guarantee	FT budget cannot guarantee third-party private sector borrowing. NWF guarantee instruments are a separate facility and require separate engagement with NWF.
Concessional returns permitted	The FT Control Framework explicitly permits below-gilt returns where a clear market failure justification exists. Section 4.2 provides this justification.
ONS classification matters	Whether the fund vehicle’s ONS classification allows CDEL FT deployment to count as a financial transaction in National Accounts terms is the central structural question in fund design. See Section 8 for the full analysis of structural routes and ONS pre-engagement questions.
Recycling obligation	Returned capital reverts to HM Treasury unless specific arrangements are made. Fund design should address the mechanism for redeployment of recycled capital into subsequent neighbourhood programmes.
Equity vs debt	FT can be deployed as either equity-aligned instruments or long-tenor subordinated debt. The case for equity and the two structural routes (equity into a company limited by shares, or subordinated debt into a CLG) are set out in Section 8.

Why this is an appropriate use of FT

The Warm Homes Plan’s explicit allocation of £3.3bn of FT for retrofit investments and innovative finance reflects a government determination that the financing architecture must go beyond grants. Area-based retrofit delivered through

a Neighbourhood Energy Transition Fund meets the FT deployment criteria: it addresses a well-evidenced market failure; it generates partially self-financing cashflows that provide a basis for capital recovery; it creates long-term economic and social assets; and it mobilises private co-investment that would not occur without the public equity anchor. The concessional nature of returns in the base case is not a weakness of the model but a feature of any appropriate first-of-kind national demonstration, and one that the FT Control Framework explicitly accommodates.