

Blended Finance Regional Funds for Net Zero

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What is driving interest in Blended Finance Regional Funds for Net Zero?

Growing awareness of the need for and benefits of regional and place-based solutions to achieve net zero goals is driving greater interest in Blended Finance Regional Funds for Net Zero.

Many Local Authorities (LAs) are exploring whether establishing such funds, which aim to scale up capital deployment for net zero initiatives by leveraging additional private and public finance, is a viable and effective way for them to channel greater capital into investments that support local climate-neutral initiatives.

What is the aim of this document?

This document aims to help Local Authorities determine if a Regional Blended Finance Fund for Net Zero ('Regional Net Zero fund' or 'Fund') is a suitable option for their region. It provides guidance on key considerations involved in establishing and operating such funds, equipping stakeholders with the insights needed to assess feasibility, structuring partnerships, and mobilising resources effectively.



What is a Blended Finance Regional Fund for Net Zero?

While there is no universal definition, we use the following parameters:

- A Fund is a structured pool of capital managed by a public or private institution, utilised for a specific purpose. In this context, we have defined a "Regional Fund" as a structured pool of managed money deployed into capital projects located in one place (the region). The projects have net zero as a core objective and can span multiple asset types. The region itself can be narrowly or more broadly defined. The Funds discussed in this document also have a central role for local government entities, such as Local or Combined Authorities, who act as regional anchors.
- 'Blended Finance' refers to funding mechanisms that strategically use public capital to attract incremental private investment, thereby increasing the financial resources available for net zero projects.



Blended Finance Regional Fund for Net Zero Checklist

This checklist includes some of the minimum enabling factors that should be in place **before** a Local Authority embarks on implementing a Regional Net Zero fund.

1. Are foundational factors established?

- a. Do you, the Local or Combined Authority, have clearly defined Net Zero objectives in place?
- b. Are relevant internal stakeholders identified and aligned? (e.g., Section 151 officer, legal and risk departments)

2. Do you understand the required level of involvement?

- a. Do you have a clear initial understanding of the level of involvement you plan to have in the fund development process?
At a minimum, a Local Authority (LA) would need to convene the key stakeholders required in the development process but could also play a more active project management role, be a convener and/or developer of the investment pipeline, and/or provide initial investment to the Fund. A clear idea of which role the Local Authority wants to play should be established from the start

3. Do you have the necessary resources in place to pursue the development of a Regional Net Zero fund?

- a. Do you have sufficient human capacity in place to undertake this process?
As described in 2a, at a minimum, someone in the Local Authority should convene key stakeholders required for Fund development. If the Local Authority has decided to take a more involved, sufficient human capacity should be in place to do this. In these instances, ideally someone with a finance & investment background should be considered
- b. Do you have sufficient financial capacity in place to undertake this process?
Having the budget and financial resource to cover initial development funding, human resource, and procurement of key partners will be key.

4. Is there a potential investment pipeline within the region?

- a. Do you have a sense of where a potential investment pipeline might flow from and at what scale?
For example, is Local Authority aware of pipeline-generating activities/stakeholders - (e.g., developers, accelerators, universities & regional businesses)

5. Are the resources in place to procure key partners?

- a. Do you have internal buy-in to initiate the procurement process?
For example, a fund manager or necessary consultants
- b. Are financial resources in place to procure required partners?



Key Fund

amentals



Key fundamental considerations
for a Blended Finance Regional
Fund for Net Zero



Fund Structure: Key Components

1

Fund Focus

Identify fund focus. Can be sectoral or thematic but should align with Local Authority's policy focus.

Sector(s)

- e.g.,
- Energy/Renewables
 - Transport
 - Agriculture
 - Real Estate
 - Waste

Thematic(s)

- e.g.,
- Biodiversity
 - Carbon Reduction
 - Social Inclusion
 - Resilience
 - Circularity

!

A **Fund Manager** with a strong, relevant track record should be selected to make investment decisions, engage potential investors and manage the pipeline and investors on an ongoing basis

2

Counterparty & Investment Pipeline

The counterparties receive investment from fund, i.e., counterparties form the potential **investment pipeline**. Key counterparty types are:

Projects

Businesses

3

Deployed Products

Funds can deploy capital to (i.e., invest in) counterparties through different products. Each product carries varying characteristics, including level of risk and return expectations.

Broad product types include:

Grants

Debt

Equity

4

Cornerstone Capital

A Fund is 'cornerstoned' at an early stage by a public or private sector investor. The cornerstone provides confidence to the market (i.e. other potential investors) by showing that fund has buy-in from a key entity.

5

Investor Base

Based on the risk-return profile of the Fund, specific investor types can be targeted. Key considerations for investors include fund manager's track record and capital deployment strategy. Investors may conduct more limited due diligence on individual counterparties.

Fund Mandate:

Defines the scope, objectives, and strategic direction of the fund. Outlines what the fund will invest in, such as sectors, themes, maturities, and geographies, as well as its risk-return profile. The mandate acts as a guiding framework for decision-making, ensuring that the fund's activities align with the established goals and investment policies.

Factors Affecting the Scale of the Fund

- **Investment Pipeline**
Will influence fund size and investor base.
- **Funding Sources**
A broad public-private base supports scale.
- **Institutional Capacity:**
Stronger capability to develop potential counterparties supports a larger fund size
- **Economic Need**
Significant capital demand from potential counterparties may require larger funds.
- **Geography**
Regional focus will impact potential scale.

Open-ended vs

Closed-ended Fund

| An open-ended fund allows ongoing investments and withdrawals, while a closed-ended fund only allows investments at fixed dates and no exits until maturity.



Basic Flow of Capital

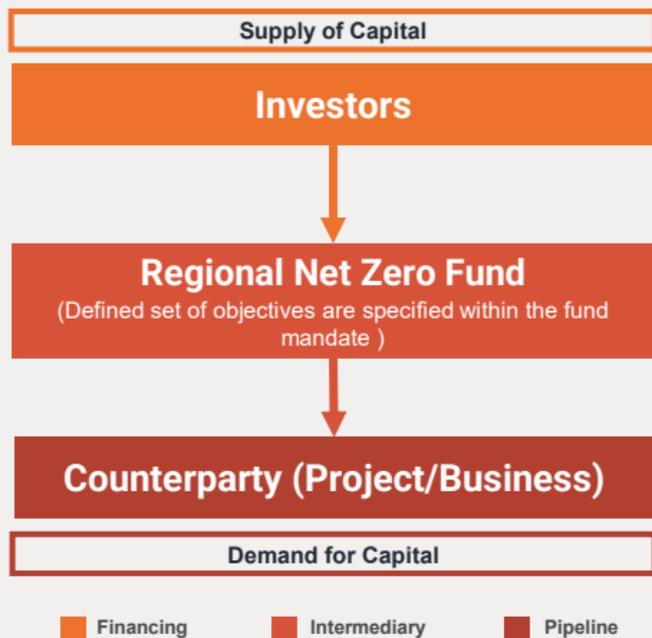


Fig.1 Basic Flow of Capital

The flow of capital involves three main entities: the capital suppliers, the intermediary, and the capital demanders.

Capital Suppliers: The investors or groups of investors – e.g., development finance institutions, institutional investors, private equity firms, philanthropic donors – who allocate financial resources to the fund. Typically, their goal is to achieve a mix of financial returns and measurable social and/or environmental impacts. Each individual investor will have its own set of requirements that must be met.

The Intermediary: The fund, managed by a professional fund manager. The fund manager evaluates investment opportunities, performs due diligence on potential counterparties, and deploys capital strategically to ensure alignment with the fund's mandate.

Capital Demanders: The counterparties (usually projects or businesses) that receive funding – e.g., renewable energy initiatives, infrastructure projects, social enterprises. The fund manager ensures that investments are directed to areas that deliver both financial and impact-related outcomes aligned to the fund's mandate.

Decision-making over which counterparties receive investment capital sits with the fund manager (Intermediary / Regional Net Zero fund).



Counterparty (Demand for Capital)

Counterparties for the fund can be individual projects or businesses/corporates.

Category	Individual Projects	Businesses/Corporates
Capital Demand	Specific to the project's needs, e.g., construction, operation, or development costs	Broad financing needs for the company's growth, expansion, and/or working capital.
Risk Profile	Risks (e.g., construction delays, regulatory, operational) are isolated to the project. Investors are not exposed to risks from other projects being developed by the same developer, for example.	Company-wide risks , including market position, operational efficiency, and overall financial health
Return Potential	Returns are directly tied to the project in question's cash flow and success. Any additional initiatives undertaken by the project developer are not relevant.	Returns reflect the entire company's performance , offering diversified cash flow from multiple projects that the company could be undertaking.
Due Diligence Requirements	In-depth analysis of project-specific technical, financial, and regulatory aspects (e.g., contract reviews, cash flow projections)	Focus on the company's financial statements , strategic plan, management team, and competitive positioning in the market.
Governance	Typically, a 'Special Purpose Vehicle'* governance structure is set up if individual projects are to be the investment counterparty. This allows for high level investor involvement in the governance and strategic direction of the project.	Governance is predefined by the company ahead of any investment and is often not susceptible to changes by investors
Level of Control	Higher control over project-specific decisions if structured as a 'Special Purpose Vehicle'. The fund may have direct influence over project management.	Less specific control ; influence is generally limited to corporate-level strategy and major decisions through board participation

*It is a separate legal entity created for a specific financial or project-related purpose, keeping its risks and assets separate from the parent company.



Example: London Energy Efficiency Fund (LEEF)

1

Fund Focus

The first step is to define the focus of the fund.

Sector(s)

The LEEF primarily focuses on the energy/renewables sector, specifically targeting energy efficiency projects across London.

Thematic(s)

The LEEF focuses on themes such as carbon reduction and social inclusion, improving energy efficiency while giving social benefits.

!

Amber Infrastructure serves as the fund manager for the LEEF. The firm has a strong track record in managing infrastructure investments.

2

Counterparty

Projects: Various energy efficiency projects across London, including public buildings and infrastructure.

Businesses: Companies that require capital for energy efficiency improvements.

Project**Business**

3

Deployed Products

Debt: LEEF was exclusively financed through debt, with no equity investments.

Grants: Provided solely for technical development and delivered through the GLA's RE:FIT technical assistance programme, complementing the fund's activities.

Grants**Debt**

4

Cornerstone Capital

The LEEF was established under the European Commission's JESSICA initiative, which allowed funding from the European Regional Development Fund (ERDF) to cornerstone the fund.

5

Investor Base

LEEF was established with support from both public and private investors. The ERDF provided initial capital, while the Greater London Authority (GLA) contributed junior capital as a limited partner. Private investors further enhanced the fund's capacity, enabling a robust blend of public and private financing.

About LEEF:

The **£100 million London Energy Efficiency Fund (LEEF)** is a significant investment initiative aimed at enhancing energy efficiency across London. It is part of a broader strategy to support the city's transition towards sustainability and low-carbon infrastructure. In addition to LEEF, a separate European Investment Bank (EIB) facility brought the total investment to £500 million, with both funds occasionally co-investing in certain projects to maximize impact.

Factors affecting the scale of the LEEF

- **Pipeline:** A strong pipeline enhances fund appeal.
- **Funding:** A diverse public-private investor base supports scalability.
- **Governance:** Amber's expertise ensures efficient fund operations.
- **Need:** High urban demand drives the need for larger investments.
- **Geography:** London focus.



Requirements for Establishing a Fund

In order to establish a fund that can viably raise capital, three key elements must be in place:

1. A track record
2. An investable pipeline
3. A cornerstone investor





The 'key three' for establishing a viable fund

Any fund will require three key elements to be viable which are:

Investment Pipeline (Demand)

To successfully build a fund and deploy the capital to fulfil its mandate, there needs to be sufficient suitable counterparties to receive the deployed capital.

The counterparties need to be investable, i.e., capable of providing the returns defined by the fund mandate. In most instances, the fund manager will be highly involved in identifying the investment pipeline, both before the initial capital is raised and on an ongoing basis. Within the Regional Net Zero Fund context, the local government convener of the fund and other partners may also be involved in identifying the investment pipeline and/or in helping potential counterparties improve their investment readiness.



Cornerstone Capital (Supply)

An initial investment from a key stakeholder builds confidence and attracts additional capital. The characteristics of the cornerstone investor will affect perceptions of the fund.

The characteristic of the cornerstone investor can vary, as can the type of capital provided. For example, a high-profile institutional investor sends a strong signal of credibility, while public sector involvement reflects local commitment. Both can act as catalysts to attract other investors. The type of capital is also crucial – e.g., grant funding can help de-risk the remaining capital.

Fund Manager (Facilitator)

The fund manager oversees decision making regarding how the fund's capital is deployed, including through due diligence and ongoing monitoring of potential and chosen counterparties. In theory, a fund manager can be selected from within a Local Council ("internal") or procured externally. However, in the likely scenario that the internal option lacks a credible track record, it is preferable to hire an external fund manager with proven expertise and a solid reputation. The fund manager plays a critical role in identifying the investable pipeline, often collaborating with the local government convener early in the process and is also involved in raising additional capital after the cornerstone is established.



Example: Green Growth West Fund

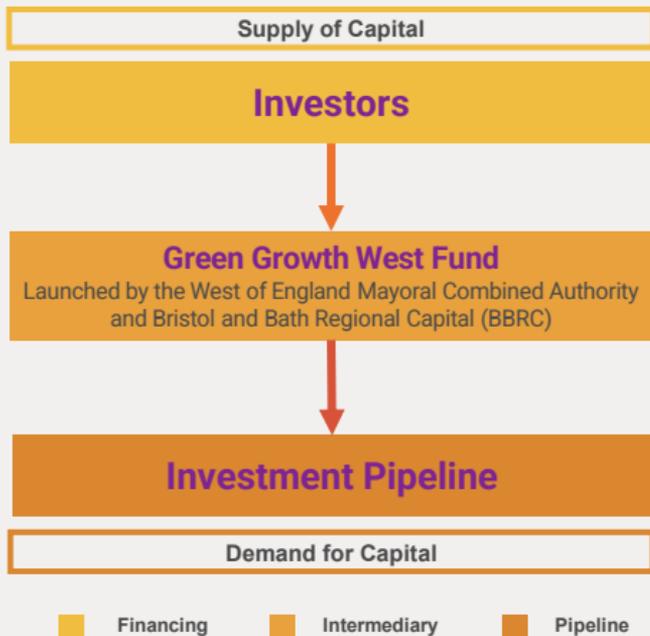


Fig.2 Basic Flow of Capital for the Green Growth West Fund

Cornerstone Capital (Supply)

For example, the Green Growth West Fund in the West of England was capitalised with an initial investment of £10 million from the West of England Mayoral Combined Authority (MCA) raising capital with a 1:10 leverage factor.

Fund Manager (Facilitator)

MCA has procured Amber Infrastructure as the fund manager to identify and evaluate investment opportunities across the southwest England. They will play a critical role in implementing the fund's strategy for net zero solutions.

Project Pipeline (Demand)

Their net-zero investment pipeline targets asset-backed regional decarbonisation projects (projects) and financially viable impact net-zero focused companies with proven technologies (businesses).



Investment Pipeline: Key Dependencies

Market Needs

A fund pipeline is dependent on satisfying a need for financing in the market, i.e., there is sufficient demand for the capital.

Pipeline Monitoring & Managing

A fund must be able to set up a capacity to monitor and respond to opportunities in its target market in a timely way.

Capacity & Technical Assistance

Some opportunities will need support during the early stages. A fund's ability to develop these will ultimately help to drive the fund's success, particularly where there is a limited investment-ready pipeline in place.

Preferred Investment Product

The investment product used must be appropriate for the target counterparty.

Fund Objectives

Market needs and strategic focus will define the fund's objectives. These objectives will be outlined in the fund's mandate and will define the opportunity set for a fund.

Screening Process

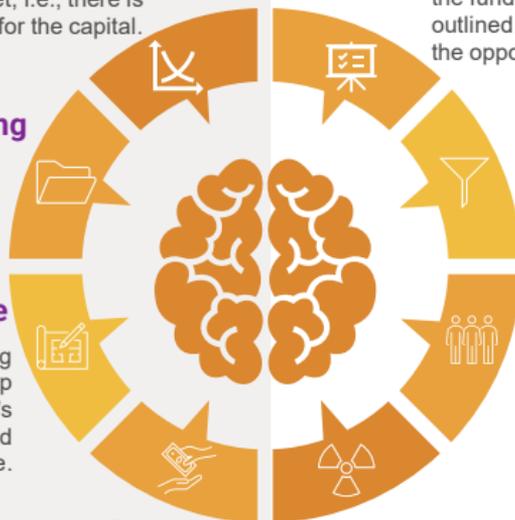
A reliable and replicable screening process will support the ability to assess potential investments, particularly if there is a large opportunity set.

Stakeholders

To build a pipeline, a diverse set of actors may need to be engaged – e.g., developers, universities, accelerators, policymakers – depending on the type of counterparty and the identification process.

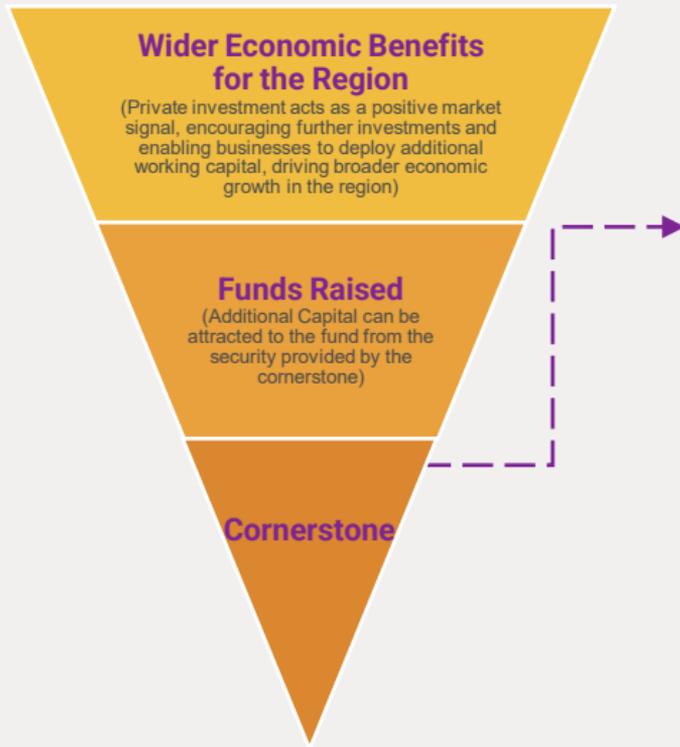
Risk Appetite

A pipeline is as broad or narrow as the fund's risk appetite, which will be defined in its mandate.





Cornerstone Capital



! A cornerstone investor, such as a public entity (signalling local commitment) or a private institution (boosting credibility), reduces risk, builds market confidence and attracts additional capital.

** NWF in the UK could cornerstone or add financing via a range of products.*

Examples of Sources of Cornerstone Capital

	Market Signal
<p>Local/Combined Authority</p>	<p>Signals credibility, institutional support, and local commitment to the fund.</p>
<p> National Wealth Fund (NWF)</p>	<p>Involvement of a reputable national investment fund, adds credibility and visibility to the initiative.</p>
<p> Private Investors</p>	<p>Involvement of private financial institutions indicates market appetite and validation of the fund's investment proposition.</p>



Selecting a Fund Manager

If the Local Authority decides that external facilitation is the best approach, there are a number of key considerations when selecting a fund manager:

- | | | | |
|---|--|--|--|
| 1 | Track Record | The fund manager should have a proven history of managing similar initiatives, including portfolio management, origination, and project development, as well as of managing blended finance funds. | |
| 2 | Regulatory Credentials | The fund manager must hold all required licences and accreditations to operate within your jurisdiction. They should be able to demonstrate high transparency and rigorous compliance all rules and regulations. | |
| 3 | Scale | The fund manager must have sufficient operational resources and expertise to handle the size and complexity of your portfolio while addressing carbon emissions targets and other critical benchmarks. | |
| 4 | Partnership | The fund manager must be willing and able to engage with local / combined authorities as a partner. They will need to actively contribute to co-creating the fund and aligning it with the fund mandate. | |
| 5 | Investor Coverage | The fund manager should have strong relationships with a diverse investor base, including institutional and private equity investors, to attract necessary funding. | |
| 6 | Understanding & Aligning the Mandate | The fund manager must fully understand your objectives and be able to craft solutions that are tailored to your needs and the expectations of the private sector. | |
| 7 | Governance Structure & Procurement Agreements | The fund manager's governance framework must provide transparency and efficiency in decision-making while adhering to procurement policies and competition requirements. | |



Technical Assistance (TA)

As projects evolve, their development can diverge from the initial expectations of investors in areas such as return profiles, delivery timelines, and risk assessments. This misalignment can impede capital formation and jeopardise project success. Early and sustained support helps realign projects with investor needs, reducing gaps in expectations, enhancing investor confidence, and facilitating effective capital formation.

Local Authorities can play a pivotal role in bridging gaps by fostering increased investor engagement, procuring financial advisory services, and leveraging government-sponsored TA programmes. For example, Department for Energy Security and Net Zero (DESNZ) / Heat Networks Delivery Unit (HNDU).

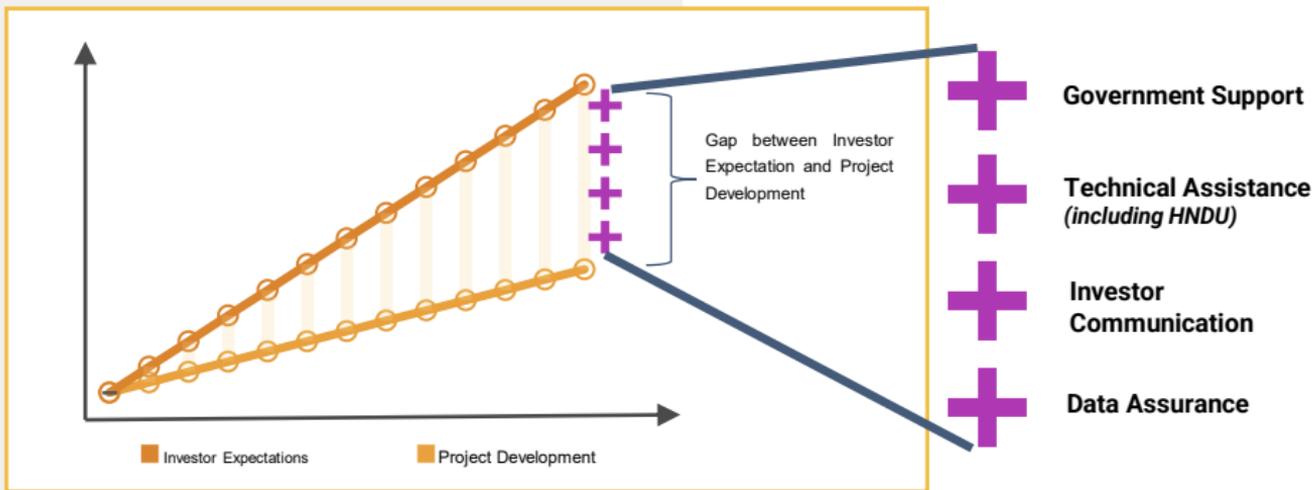


Fig.3 Investor Expectations vs Project Development



Financial Advisory

In this context, a fund is raised to facilitate projects whose outcomes will drive beneficial change in the region. Projects sometimes require ideation and piloting support. This is often within the Local Authority's capacity to manage but is not cost-effective for the fund manager whose purview focuses more on finalising contractual agreements or deal structuring. This leaves a gap, known as the 'valley of death', where projects stall. Local Authorities often struggle to secure the initial risk capital needed to progress toward this crucial financial advisory step.

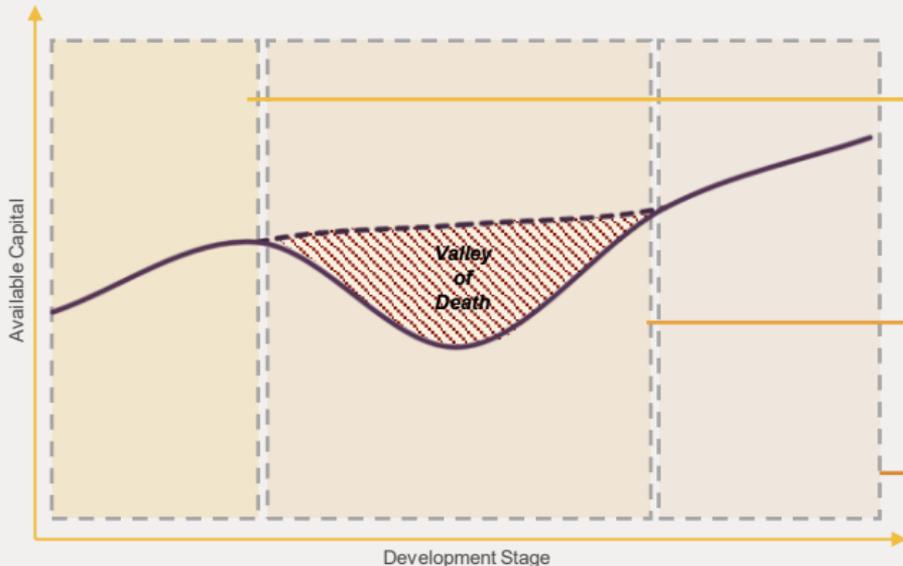


Fig.4 Valley of Death

Local Authority

Initial support from the Local Authority provides the necessary resources and guidance to get a project off the ground.

Financial Advisory

After a period, there is a dip in the level of support from the Local Authority. During this phase, the fund can rely on external financial advisory firms to provide expert guidance and recommendations to a project. These advisory services help projects navigate market challenges.

Fund Manager

In the last mile of a project's lifecycle, the fund manager takes a larger and more active role, leveraging their expertise and resources to ensure the continued success of the project.



Raising Capital

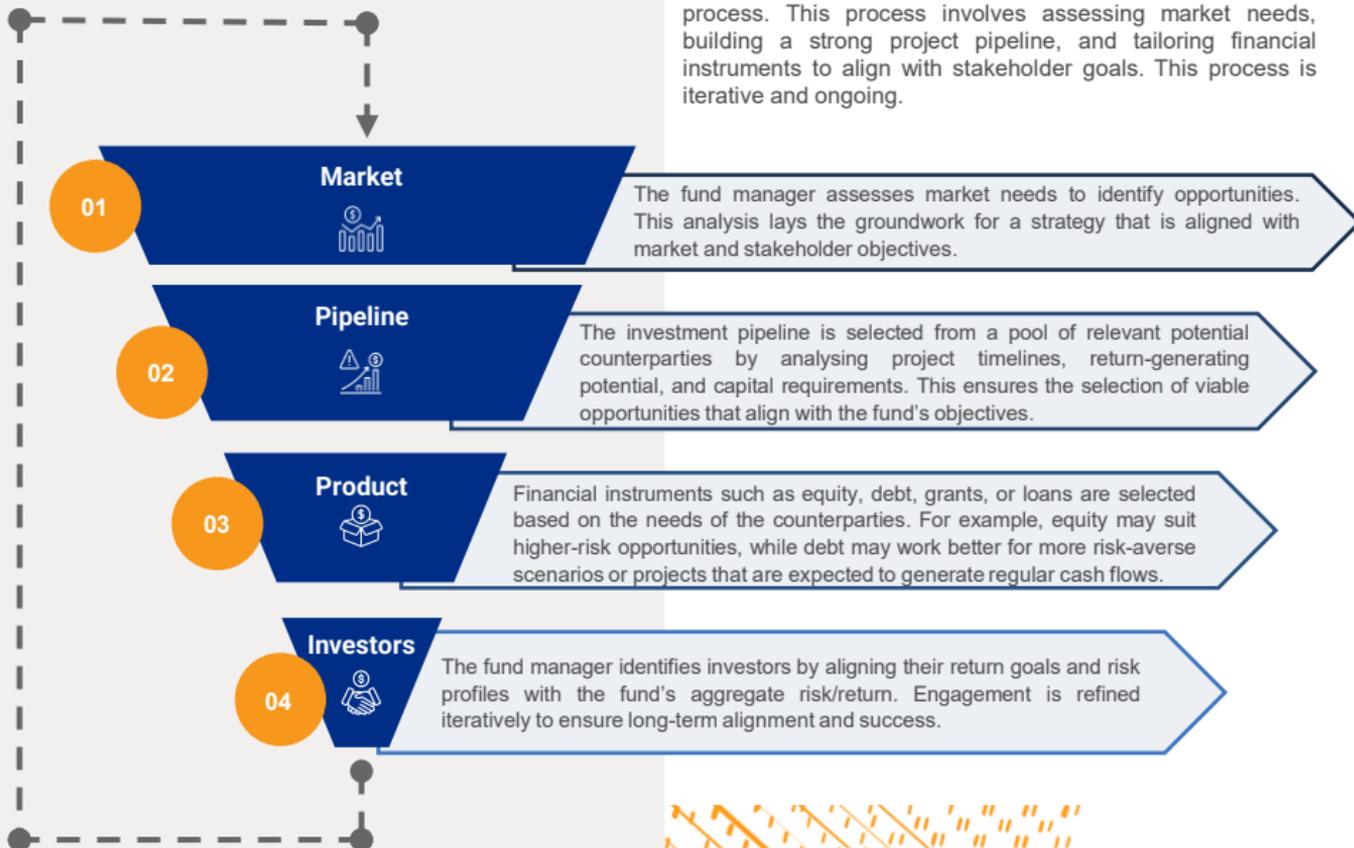
With the three key fund establishment requirements in place, the focus moves to raising the remaining capital.





Identifying the Right Investors

Identifying the right investors for Regional Net Zero funds is dependent on the outcomes of a step-by-step preparation process. This process involves assessing market needs, building a strong project pipeline, and tailoring financial instruments to align with stakeholder goals. This process is iterative and ongoing.





Investor Types

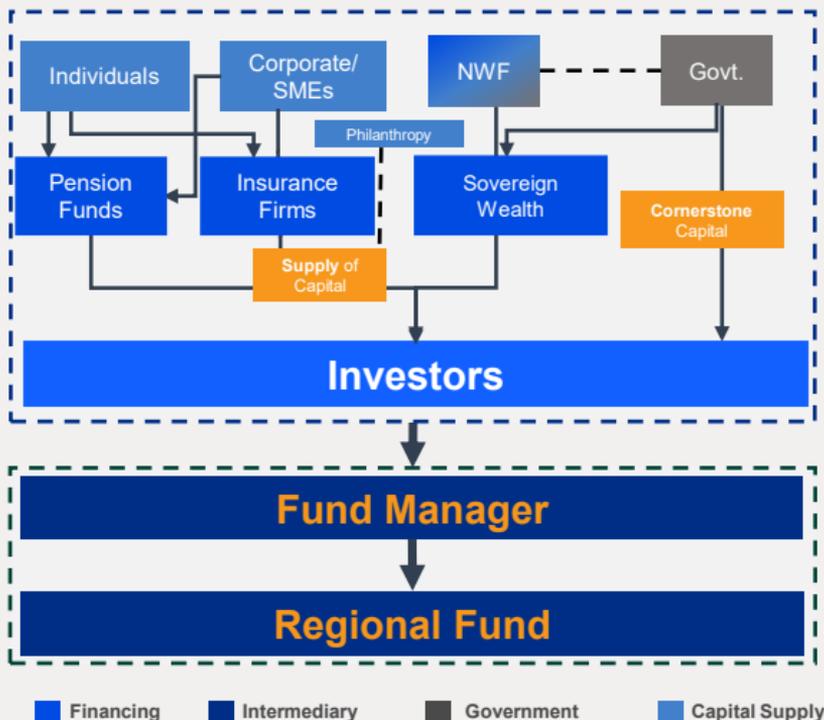


Fig.5 Investor Composition

Investor Participation

Investors in Regional Net Zero funds act with distinct investment priorities and obligations.

For example, private institutional investors, **particularly pension funds and insurance firms**, must meet specific return requirements to fulfil their dual mandate: covering investment costs while delivering value to their stakeholders. These investors are accountable to both corporate entities and individual beneficiaries such as pensioners and policyholders, making their return targets a critical component of their investment strategy.

In a separate example, the way in which **governments participate** in these funds is more flexible, with investments channeled through either direct involvement or sovereign wealth funds. Government involvement can serve multiple purposes. On the financial side, it can help attract additional private capital by demonstrating public sector commitment to the funds objectives while also helping to de-risk the commitment from the private sector if grant or concessional capital is provided. More broadly, government involvement can help shape the funds objectives in line with national/local policy priorities.



Types of Potential Investors

A guide to institutional investor categories, their strategic objectives, and market participation patterns. From sovereign wealth funds to philanthropic institutions, each investor type brings unique priorities and engagement levels to fund management.

	Category	Priorities	Involvement	Example
Higher	Insurance Funds	Generate stable returns to meet policyholder obligations; maintaining liquidity for claims payouts and manage liabilities.	Low to moderate; focus on risk and liquidity transparency due to regulatory requirements, though direct interference is limited.	Scottish Widows , a UK insurance and pension provider, pledged billions to climate-friendly investments like infrastructure and green bonds.
	Banks	Profit through interest income, fees, and investment income; maintaining liquidity to meet depositor withdrawal needs.	Low to moderate; require detailed reporting on risk management but generally limit direct involvement to regulatory compliance.	Banks were syndicated for MEEF to take advantage of the similar risk/return profile of the counterparties and products deployed.
	Other Institutional Funds	Achieve consistent financial returns while meeting specific mandates, such as sustainable investment or development.	Low to moderate; primarily focused on monitoring performance and adherence to investment mandates but typically rely on fund managers.	University endowment funds investing in green bonds or low-carbon technologies to align with sustainability goals while generating returns.
	Pension Funds	Ensure long-term returns to meet pension liabilities; stability of income for future retirees.	Low; typically rely on fund manager expertise, with requirements for regular reporting and adherence to guidelines.	Local Government Pension Schemes are committed to upping their private market and regional investment allocations as a proportion of assets under management.
	Development Financial Institutions / Sovereign Wealth Funds	Strategic investments that foster national policy priorities, such as sustainable growth, innovation and social cohesion.	Moderate; direct or indirect investments aligned with national economic objectives, with oversight by sovereign authority.	Scottish National Investment Bank (SNIB) has acted as a cornerstone investor in multiple projects, driving green infrastructure and innovation in Scotland.
	Government	Support economic growth, job creation, and infrastructure development.	High; impose strict guidelines aligned with social, environmental, or economic objectives and monitor compliance closely.	MEEF is a £500m investment fund established by the GLA with funding from the European Commission.
Lower	Philanthropy	Social and environmental impact rather than financial returns.	Low; primarily provide funding and set overarching goals but rarely interfere in day-to-day fund governance.	The Rockefeller Foundation funds initiatives such as the Global Energy Alliance for People and Planet to support clean energy transitions in economies.



Case Study: MEEF Investors

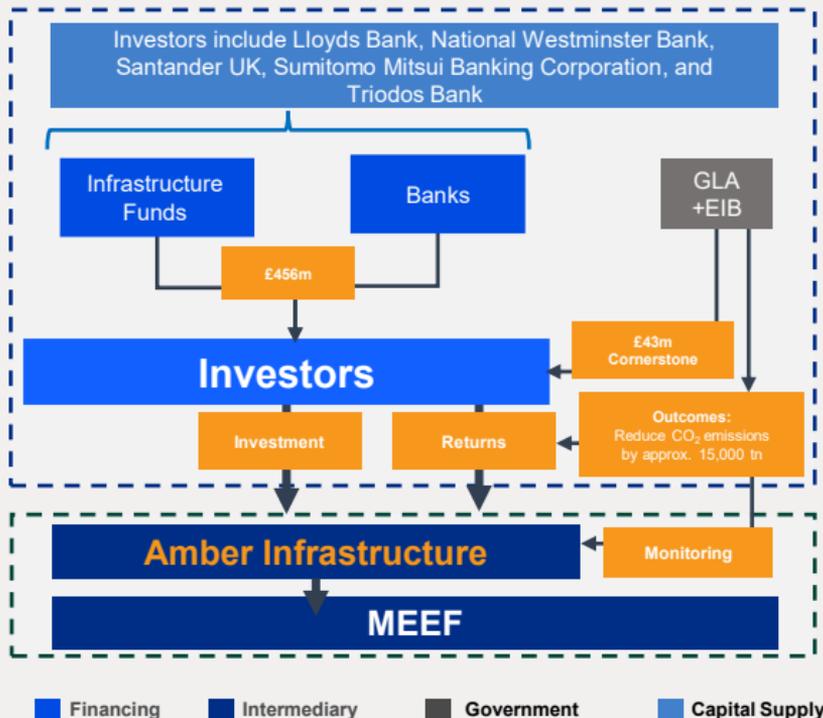


Fig.6 Investor Composition of MEEF

Source: BwB

Investor Composition

MEEF brings together different types of investors, including infrastructure funds and banks (specifically Lloyds Bank, National Westminster Bank, Santander UK, Sumitomo Mitsui Banking Corporation, and Triodos Bank). The Greater London Authority (GLA) and the European Investment Bank (EIB) played a key role by initially committing £43 million in cornerstone capital. This has since grown to £108 million from additional commitments from the GLA and recycling of MEEF's initial investments—highlighting the fund's success.

The investment structure shows a total contribution of up to £456m of additional capital raised following through to the MEEF which is managed by Amber Infrastructure. The fund operates with a specific blended finance mandate between the GLA and the private investors. The fund invests in debt and equity in public infrastructure and SMEs. The fund aims to achieve specific environment outcomes, including reduced annual CO₂ emissions by 72,000 tonnes and energy consumption by c40m Kwh.

There is strong domestic financial institution participation, with most of the investors being UK banks.



Product Breakdown Simplified

The fund deploys capital products to counterparties based on their risk/return profiles, maturity requirements, and other needs. The fund strategically utilises these products to achieve desired outcomes and facilitate investment disbursement.

Category	Meaning	Returns	Risk
Grants	Non-repayable funds provided to support specific projects or outcomes without expectation of financial return.	No financial return as grants are meant to achieve non-financial fund outcomes.	Full capital at risk with no expectation of financial repayment; high risk for the fund but justified if objectives are met.
Concessional Debt	Debt offered at below-market interest rates to support development objectives.	Lower interest returns than commercial debt; supports high-impact projects/businesses rather than profit.	Risk is less as terms are manageable; risk will increase if social goals impact financial viability.
Loans	Borrowed funds provided by a lender with an obligation to repay with interest over a fixed term .	Interest payments, typically fixed or variable; returns are generally predictable . Usually customisable.	Credit risk, as repayment depends on the borrower's ability to fulfil obligations; no ownership stake .
Bonds	A debt with a fixed repayment schedule and interest; no ownership in the project/business.	Interest payments , typically fixed or variable; lower returns than equity but predictable. Usually standardised.	Lenders face credit risk but have seniority over equity holders in repayment order.
Equity	Capital investment in exchange for partial ownership and shared profits/losses.	Potentially high returns from profit sharing or capital gains, but returns are not guaranteed .	Full exposure to project performance; equity holders are last in line for repayment if a project fails.



Deploying Capital: Equity or Debt?

The fund manager should carefully evaluate the nature of each project to determine whether equity or debt financing is most appropriate, considering factors such as risk, cash flow predictability, and development stage. Depending on the counterparty, payback period and capital intensity of the project, funds will need to consider the required asset product to deploy.

Projects requiring Equity Investment	Aspects	Projects requiring Debt Investment
High risk and uncertainty (e.g., new markets, innovation)	Risk Profile	Low to moderate risk (stable cash flows, less uncertainty)
Early stage, long development timelines	Development Stage	Established or near-operational with predictable cash flow
Limited or uncertain in early stages	Revenue Generation	Stable, predictable cash flow from day-to-day operations
High capital needs, long payback periods	Capital Intensity	Lower capital needs, more predictable revenue generation
Limited or delayed revenue generation	Cash Flow in Early Stages	Immediate or established revenue generation
Greenfield projects (e.g., new energy plants, airports)	Project Type	Brownfield projects (e.g., existing energy plants, toll roads)
Flexible financing, involvement in governance and strategy	Stakeholder Expectations	Limited involvement in project management
Not directly secured by tangible assets	Asset Backed	Tangible, collateralisable assets (e.g., bridges, power plants)
Last to be repaid after debt obligations are met.	Project Failure	Claim on project assets in case of failure.



Product Deployment

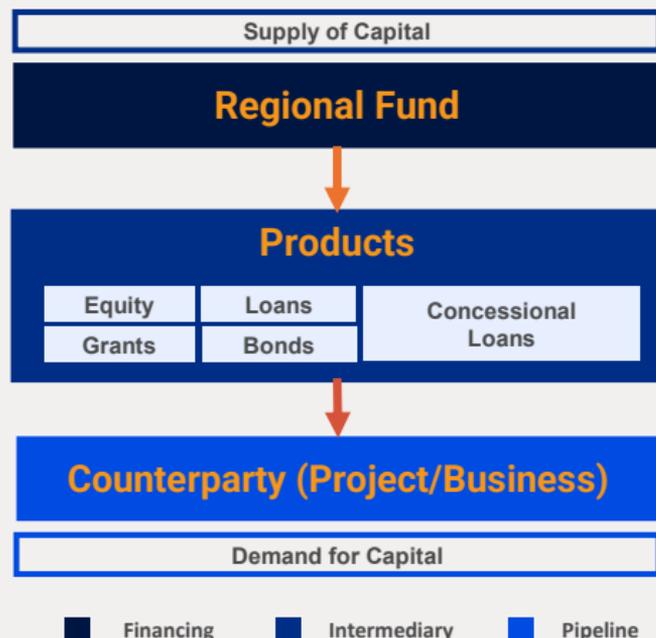


Fig.7 Flow of Products Deployed

Products

Figure 6 emphasises the range of financial products that a regional fund can deploy to meet the diverse needs of an investment pipeline. These products include equity, loans, concessional loans, bonds and grants, with each of these tailored to address specific financial gaps and risk profiles in projects or businesses.

A regional fund may deploy a combination of these financial products or focus on a single product, depending on its strategy and the requirements of its investment pipeline. The flexibility to structure financing in this manner ensures that capital can be efficiently allocated to support viable projects while managing risk.

For **blended finance funds**, this flexibility is particularly critical. By issuing various financial instruments, these funds can tailor their capital structures to align with the risk-return expectations of different investors. At the same time, they can strategically deploy concessional finance or grants to address market failures, attract private capital, and support high-impact projects that might not otherwise receive funding. This blended approach enhances the overall efficiency and effectiveness of capital deployment, ensuring that both investor needs and project requirements are met.



Case Study: Product Deployment

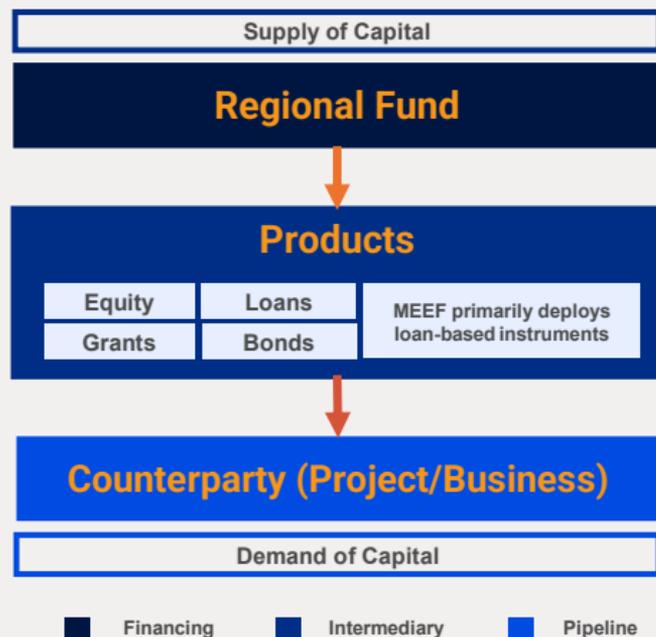


Fig.8 Flow of Products Deployed in MEEF

Products

The **Mayor of London's Energy Efficiency Fund (MEEF)** which is a successor to LEEF, serves as a strategic investment vehicle connecting regional capital with energy efficiency projects across London.

Operating under the GLA, MEEF takes a streamlined approach to deploying capital, which is done **primarily through loans** to businesses/projects looking to improve their energy efficiency or implement renewable energy solutions.

What sets MEEF apart is its focused approach. Rather than diversifying across multiple sectors, the fund primarily targets **energy efficiency and renewable projects**. This specialisation allows MEEF to develop deep expertise in assessing and supporting these initiatives, while maintaining a straightforward path from capital to implementation.

The fund bridges the gap between London's environmental ambitions and practical business needs by providing accessible financing options that help entities move from plans to actions in pursuing sustainability objectives.



Fund Operations

Fund operations covers management fees, costs, governance, risks, etc.



Regional Net Zero Fund Fees

An overview of fund fee structures, outlining the key categories, their coverage, and associated costs. It offers insights into how fees are applied across different stages of fund management and operations.

Category	What is Covered?	Associated Costs
Retainer Fees	Fixed fees paid to the fund manager to ensure availability and commitment to manage the fund; usually paid before substantial capital is deployed or the fund is fully operational.	Typically covers initial costs such as pipeline development, fund structuring, and investor engagement.
Management Fees	Covers the ongoing management of the fund , including capital allocation, compliance, and governance.	Usually a percentage (often 0.5-3%) of the total committed or invested capital, depending on the agreement.
Administrative Fees	Charged when capital is deployed to projects . These fees are tied to the transactional process of assessing, structuring, and approving individual investments from the pipeline. May also include legal and due diligence costs associated with project funding.	Depends on the product deployed; as capital is invested and investors are syndicated some level of disbursement fee can be retained. Often 1%.
Operation Fees	Fees related to the ongoing operations of the fund or its investments, including project-level oversight and administrative functions.	Monitoring funded projects (e.g., compliance, ESG reporting). Day-to-day operational management of special purpose vehicles (SPVs) linked to funded projects. Administrative costs of fund operations (e.g., reporting, audits).
Success Fees	Charged when specific performance benchmarks or financial returns are achieved, incentivising the fund manager to deliver high returns or meet specific impact metrics.	Usually, a percentage of profits beyond a certain threshold (e.g., 10-20% of returns above a hurdle rate).



Fees, Costs & Financial Flows Summary

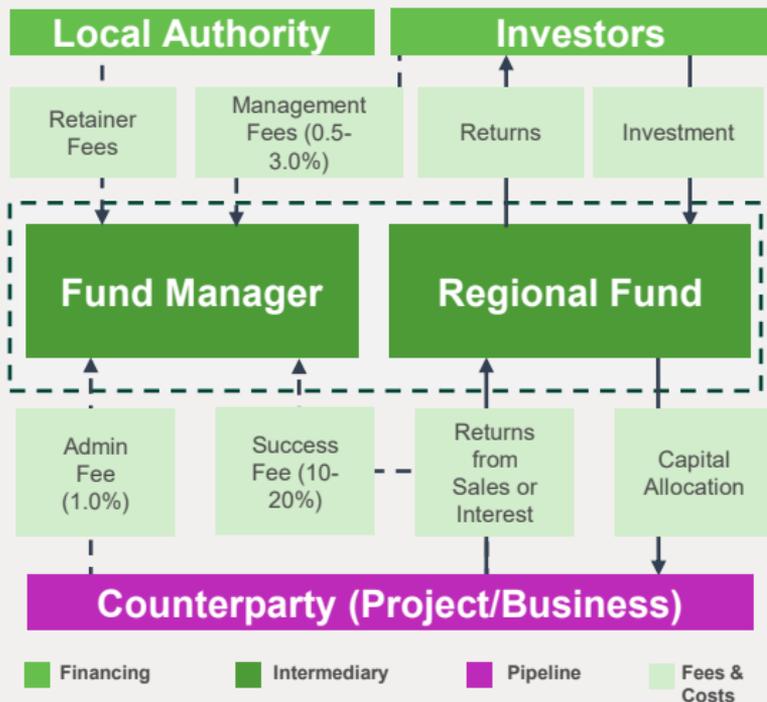


Fig.9 Flow of Fees and Costs

Source: BwB

Fund Manager Fees

The diagram provides an overview of how financial flows are managed within a blended finance regional fund, ensuring effective deployment of capital toward net-zero investment opportunities. The primary contributors include Local Authorities and investors, which each have distinct financial responsibilities.

Local Authorities typically pay retainer fees and management fees (usually ranging from 0.5% and 3%) to fund managers. These fees cover the operational and administrative functions required to manage the fund. Fund managers may also charge an administrative fee (1%) and may receive a success fee ranging from 10% to 20% of the profit above a pre-agreed hurdle rate based on the returns generated from the investments.

Investors provide capital to the fund in exchange for expected returns from sales or interest. The fund, in turn, allocates this capital to investment opportunities, ensuring financial and operational pipelines remain robust. This structured approach ensures transparency and incentivises efficient fund management while aligning stakeholder objectives to support net zero outcomes.



Role of Local Authorities

A summary of three regional fund governance models for Local Authorities – **outsourced, engaged, and in-house** – focusing on trade-offs between control, cost, and capacity to align with institutional priorities.

	 Outsourced	Engaged	In-House <i>Not recommended—track record of a Fund Manager is crucial for scaling and maintaining a fund.</i> 
Role in Fund Development Process	The Local Authority initiates the Fund development process and engages key stakeholders, but project management is handled by an external Fund Manager, working largely independently.	The Local Authority starts the Fund development process, engages stakeholders, and acts as the project manager. The Fund Manager is externally procured but works closely with the LA.	The Local Authority convenes, and project manages the entire development process, while also taking on the Fund Management role in house.
Role in Fund Initial Capitalisation	Can provide cornerstone capital but is not obliged to.	Can provide cornerstone capital but is not obliged to.	Can provide cornerstone capital but is not obliged to.
Role in Fund Governance	Strategic Oversight Role in collaboration with the Advisory Role to ensure alignment with the regional priorities	Strategic Oversight Role in collaboration with the Advisory Role to ensure alignment with the regional priorities	Strategic Board Oversight Role of the Local Authority might be in question due to Local Authority's concurrent role as the Fund Manager
Pros & Cons	Pros: <ul style="list-style-type: none"> + Leveraging greater expertise. + Access to additional pipeline. + Little administrative responsibility. Cons: <ul style="list-style-type: none"> - Additional cost. - Reliance on external entity. - Less control over process. 	Pros: <ul style="list-style-type: none"> + More consistent alignment with fund manager. + Combination of expertise. + Additional controls in place. Cons: <ul style="list-style-type: none"> - Local Authority needs to have higher capacity. 	Pros: <ul style="list-style-type: none"> + Fewer external costs associated. + Total control of process. Cons: <ul style="list-style-type: none"> - No expert support; LA may lack fund management track record, making investor engagement tough - Local Authority needs to have extraordinary capacity. - Total responsibility for pipeline.



Example of In-House Model: West Suffolk Fund *

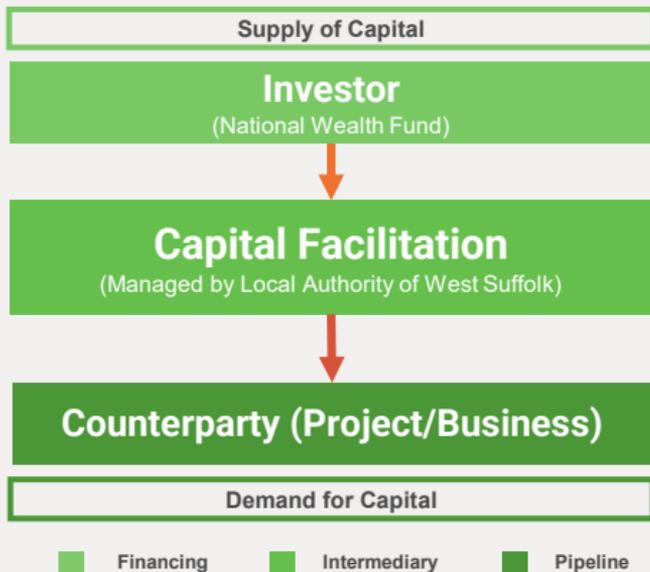


Fig.10 Basic Flow of Capital in West Suffolk Fund

! We do not recommend the In-House operational model for regional funds, given lack of track record of LAs in fund management. However, it could be considered for more simple or targeted approaches, such as direct lending, but not suitable for scaling a fund and mobilising private finance. This case study illustrates use of an in-house operational model for direct lending between one finance provider, the NWF, and the LA which manages the funds in-house and determines counterparties that it on-lends to. Note that although this case study is called a 'fund' this is not what the private finance market would recognise as a blended fund structure. The word 'fund' is used liberally and therefore parameters should always be checked.

National Wealth Fund (Supply)

The National Wealth Fund (NWF) provided a £17m loan to West Suffolk Council to support net-zero projects. This loan is not structured to attract private finance but instead functions as ring-fenced capital within the Council's treasury reserves.

West Suffolk Fund (Facilitator)

The West Suffolk Fund aggregates small projects into an investment-ready package. By reinvesting surpluses from successful initiatives like the Solar for Business scheme, it ensures cost-neutral outcomes while supporting sustainability projects.

Project Pipeline (Demand)

The fund backs initiatives to cut emissions and improve energy efficiency. Key projects include building decarbonisation, expanding the Solar for Business scheme, electrifying the council fleet, and upgrading street lighting and heat networks.



How are funds governed typically?

Depending on the Local Authority's level of involvement, various committees can be established to support and operate throughout the fund's lifecycle. These can range from those managing the fund's day-to-day operations to higher-level steering and directive committees. The extent of the Local Authority's participation depends on the fund's anticipated outcomes and the Local Authority's capacity to provide oversight.

Category	Purpose of Committee	Fund Manager	Government	Private Investor
Audit Committee	Oversight of financial reporting, internal controls, and risk management processes.	Must provide accurate and transparent financial reporting to Audit Committee.	Mandates thorough financial audits and robust internal controls.	Demand reliable financial reporting and effective risk management.
Management Committee	Oversee day-to-day operations and strategic decision making of the fund.	Must work closely to ensure strategic decisions align with investment mandates.	Oversight ensures strategic planning and operations align with laws.	Expect strong corporate governance and strategic decision-making.
Remuneration Committee	Determine and approve compensation and benefits for executives and employees.	May need to provide input on compensation and incentive structures for investment staff.	Scrutinises compensation for compliance with labour regulations.	Scrutinise compensation plans for alignment with performance.
Nomination Committee	Identify, evaluate, and recommend candidates for key management positions.	May advise on skills and experience needed for key investment roles.	Monitors board composition to verify independence and expertise.	Require a transparent board selection process with relevant expertise.
Compliance Committee	Ensure the fund adheres to relevant laws, regulations, and internal policies.	Must demonstrate adherence to all relevant laws, regulations, and internal policies.	Demands comprehensive programmes to uphold all applicable rules.	Require strict adherence to laws and regulations.
Risk Management Committee	Identify, assess, and manage the fund's exposure to various risks.	Accountable for identifying, assessing, and mitigating investment risks.	Requires proactive identification and mitigation of material risks.	Demand comprehensive risk mitigation and oversight.
Investment Committee	Oversee the fund's overall investment strategy, policies, and portfolio construction.	Must provide updates on portfolio performance, risk exposures, and any major changes.	Regulations compel transparent portfolio management and reporting.	Expect consistent returns, transparency, and prudent investing.



Aspects of Fund Governance

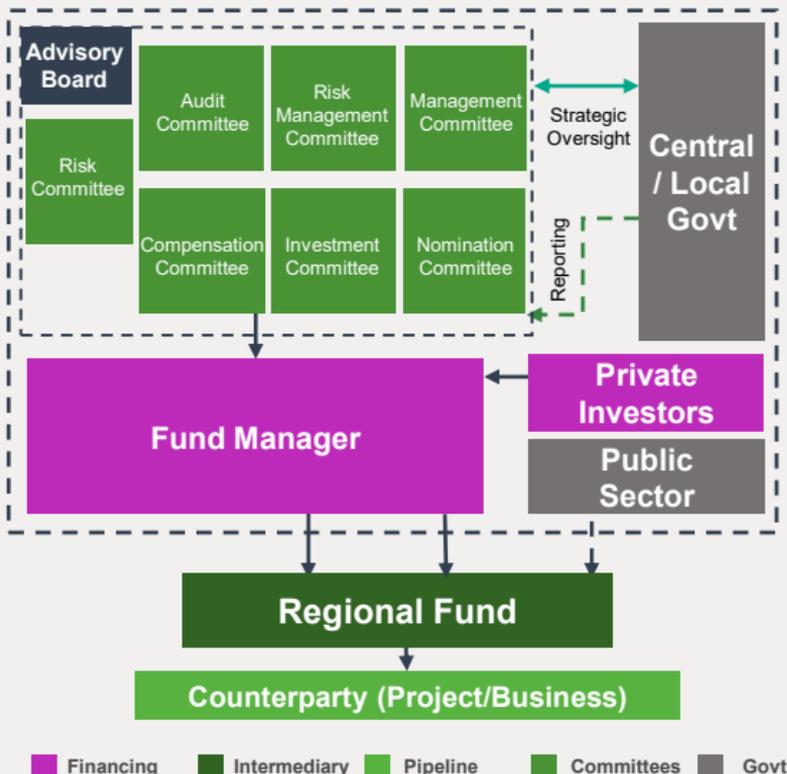


Fig.11 Typical Fund Governance Model

Fund Governance

The typical fund governance model is designed to ensure effective oversight, transparency, and alignment with the goals of both public and private stakeholders.

At the core of this structure is the **Advisory Board**, which provides strategic direction and oversight to align the fund's activities with public policies and investor priorities. The fund manager plays a pivotal role in allocating capital – through loans, equity, or guarantees – to projects that meet the defined objectives.

Alongside the fund manager, several specialised committees (audit, risk, management, and investment committees), ensure rigorous decision-making, accountability, and adherence to regulatory and ethical standards.

Capital is typically supplied by private investors and the public sector in a blended finance fund. Regular performance updates will need to be provided to maintain transparency and trust.



Overview of Potential Risks

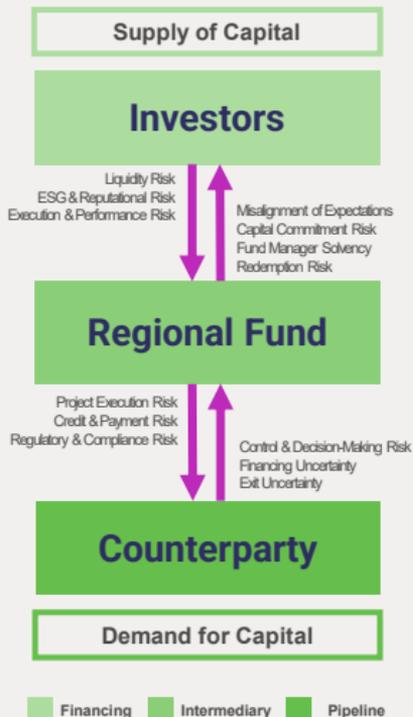


Fig.12 Risks at Different Stages

Funds to Investors

Liquidity Risk: Funds typically have long investment horizons, and investors might struggle to exit early.

Execution & Performance Risk: The fund manager's ability to identify, invest in, and successfully exit projects may not align with investor expectations.

ESG & Reputational Risk: If a fund invests in projects that fail to meet ESG standards, investors may face reputational damage.

Funds to Counterparties

Project Execution Risk: Delays in infrastructure development, cost overruns, or poor governance from the project sponsor could affect financial performance.

Credit & Payment Risk: Counterparties may default on financial obligations, affecting cash flows.

Regulatory & Compliance Risks: Changes in permitting, land acquisition policies, or government approvals can delay or derail projects.

Investors to Funds

Capital Commitment Risk: Investors may not provide the funds they previously agreed to, leading to funding gaps.

Redemption Pressure: If investors want to exit, the fund may face challenges meeting these demands.

Misalignment of Expectations: Different investor classes may have varying return expectations, leading to potential disputes on fund strategy.

Fund Manager Solvency: Due diligence is required to assess financial stability

Counterparties to Funds

Financing Uncertainty: Fund's KPIs may not be supportive of the project after a change in it.

Exit Uncertainty: The fund may push for an early exit (e.g., through secondary sales) that does not align with the counterparty's strategic goals.

Control & Decision-Making Risk: If the fund demands a governance role, it may lead to conflicts with the project sponsor or management team.



Residual / Underlying Risks in a Fund

The fund must offset identified risks that may materialise to/from its counterparties and to/from its investors. This involves multi-faceted considerations that are different at each stage of the project lifecycle.

Residual Risks	The risks outside the direct control of the fund. Ensuring flexibility to be able to react to these quickly and appropriately is crucial. From a Regional Net Zero fund perspective, these risks include any stakeholder or eventuality that could hinder the development or operation of the investment but cannot be directly accounted for through normal fund governance. The nature of these risks will have an impact on the investments made and the due diligence process in underwriting the investment.	
Category	Nature of Risk	Offsetting Actions
Market Risk	Exposure to market forces, such as changes in prices, exchange rates, and/or raw material availability can have an effect on the assumptions made initially and change the nature of the investment over time. This impacts the counterparties and, in turn, the Fund.	Understanding how counterparties offset these risks is a key role for a Fund Manager (e.g. do they have long term raw materials contracts or fix exchange rates, if relevant?). A Fund Manager must also make key decisions around diversifying market risks within its investment portfolio in aggregate.
Demand Risk	The business or project does not perform as expected during operation of the investment. This risk is an important consideration in the due diligence process.	Understanding the counterparty's strategy for managing uncertainties is a key role of the Fund Manager (e.g. analysing the contracts a potential counterparty has in place before entering into an investment).
Financing Risk	Risk that the Fund has difficulty securing and/or maintaining necessary financing from relevant investors to meet its aims and mandate.	Mitigating factors should be largely addressed during the project development process. Critically, this includes procuring a relevant Fund Manager with a credible track record and investor network, while ensuring alignment between the Fund Manager, Local Authority and other key stakeholders.
Political Risk	Risk of uncertainty faced by counterparties in their project/business development due to the national and/or local political environment. This risk could result in financial losses due to political changes and will vary significantly based on the geography of the Fund and its counterparties.	Geographical diversification can help offset this, but in a regional fund where the politics are largely tied to a specific location, insurance and government guarantees can play an important role. Stakeholder management is also important to negate policy challenges.
Reinvestment Risk	The fundamentals of the fund rely on a strong pipeline for continued execution. Once capital is returned, there should be additional opportunities for reinvestment. If these do not exist, this could be a risk to continued success of the Fund.	In the likely scenario, this is a close-ended fund a shorter structure with multiple closes allowing for a staggered fund-raising approach to minimise the reinvestment risk.
Technology Readiness Risk	A fund's mandate defines its appetite to take technology risk on its counterparties, i.e. some funds will only invest in mature technologies, while others may have appetite to invest less mature technologies. The risk is higher if technologies are more innovative.	As the Fund Mandate defines the level of technology risk that is acceptable, this will be factored in during project development and is directly linked to the types of investors engaged and the financial products utilised. Technology risk could be further offset at the counterparty level with warranties, performance guarantees, insurance and third-party validation.



Project Risks

A summary of the challenges across the planning, construction, and operation stages. Key risks include lack of investor interest, technical problems, cost overruns, delays, inflation, and limited demand. Mitigation strategies such as accurate project data, turn-key contracts, O&M agreements, and financial tools underpin robust risk management and project viability.

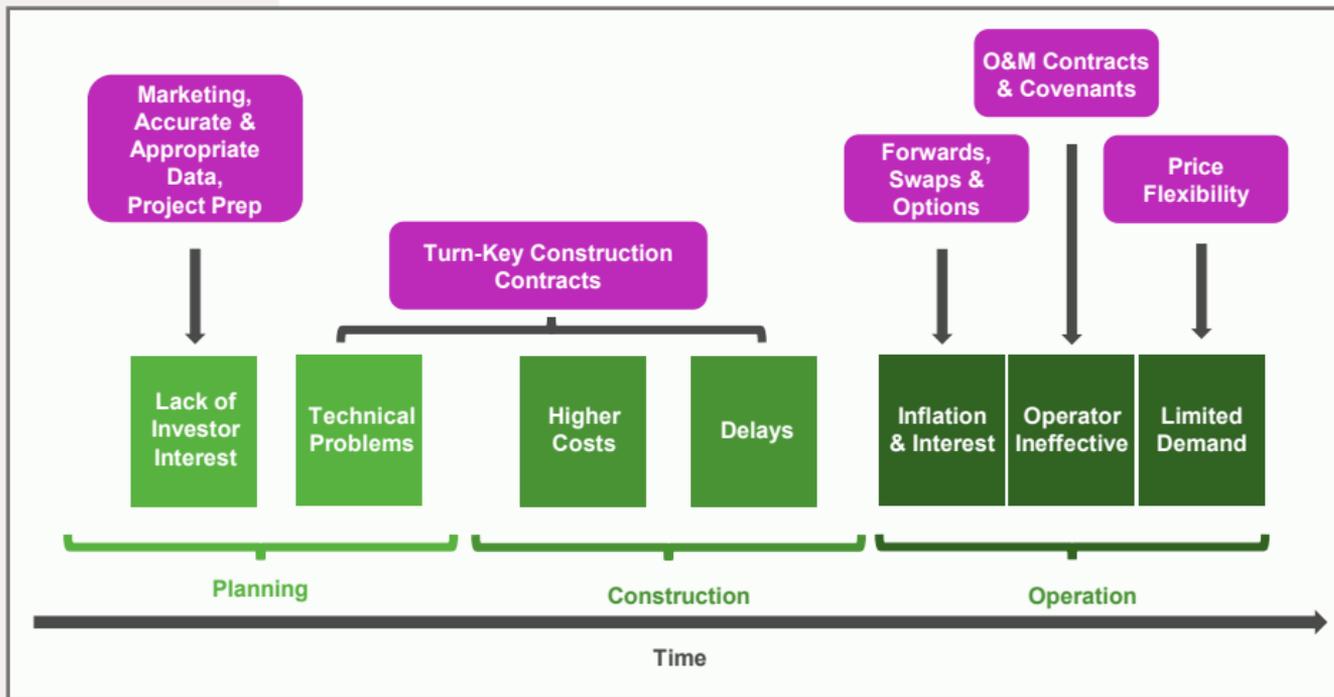


Fig.13 Project Risks at Different Stages

For more support!

If you're a Local Authority considering whether a regional, blended net zero fund is right for you and need more support you can contact:

DESNZ Local Net Zero Accelerator
Finance Support Service at
Inza@gsetzerohub.org.uk

National Wealth Fund Local Advisory
Service at
localauthority@nationalwealthfund.org.uk

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