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| **Building capacity to deliver Net Zero enterprise support provision in the East Midlands**Race to Zero White Paper #2 December 2023Dr. Fred Paterson, Associate Professor for Sustainable Business, University of Derby, College of Business, Law and Social Sciences | **University of Derby Logo** |

This Race to Zero White Paper explores the nexus between SME interests, public funding and regional support for smaller firms that are pursuing the journey towards Net Zero. In the final section it sets out a series of recommendations for funders, policy makers and programme designers of enterprise support aimed at helping smaller businesses achieve national Net Zero emissions targets. It is based on contributions from 27 delegates attending the Developing World Class Net Zero Support in the West Midlands conference hosted by the University of Derby Sustainable Business Research Group in Birmingham in June 2023.

## Background

In Mission Zero: the Independent Review of Net Zero, published in January 2023, Chris Skidmore MP argued that Net Zero should be the “growth opportunity of the 21st century”. Skidmore argues that the benefits will be greater ‘if we act faster on decarbonisation; but the risk of delay is significant, and local areas are being hampered from going as fast as they want to’, in part due to lack of investment, policy clarity, infrastructure bottlenecks or delays in the planning system. Later that year, the CBI report ‘Green Growth: The UK is Falling Behind’ (2023) showed that the UK had one of the lowest levels of spending on climate change of comparable global economies; with France investing double and Germany four times as much on climate change transformation compared with Britain. Consequently, the UK market share of key export markets such as electric vehicle (EV) assembly, EV batteries and hydrogen electrolysers fell between 2020 and 2022.

On a more optimistic note, smaller firms are rapidly becoming the creative wellspring of the Net Zero transformation. The latest survey from the BSI Net Zero Barometer (BSI, 2023) shows that SME leaders’ awareness of their role and commitment to the benefits of greater pro-environmental practices is growing rapidly. In the introduction to the BSI report (ibid p.3), Sir Scott Steedman (BSI Director General) says, “SMEs want to understand both where they are on this journey, and what that transition means specifically for them. They will benefit from a clear glide path as to how they’re going to achieve net zero, not only in their own operations, but also in their supply chains. With incoming changes in legislation around non-financial reporting requirements, this will only become more pressing”.

Achieving Net Zero will not be achieved solely by shifting to renewables and delivering energy efficiency. Whilst new industry standards, guidance and government legislation are important, the influence of customers and clients is also becoming increasingly significant, with younger consumers, especially, favouring brands and companies with genuine green credentials.

Public sector and corporate supply chains are also becoming increasingly sensitive to environmental impact, and so the influence of regional policy and public procurement are increasing in significance.

According to its landmark Net Zero Strategy (2021), the UK Government recognised that 30% of the greenhouse gas emissions reductions needed to deliver on the UK’s Net Zero commitment by 2050 rely on Local Authority involvement, while 82% of emissions are ‘within local authorities’ scope of influence. Local government, therefore, has a key role to play in encouraging the shift to a Net Zero economy, but the National Audit Office (2021) found that there are “weaknesses in central government’s approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities’ overall roles, piecemeal funding, and diffuse accountabilities”.

In its substantial review of the policy evidence, Powers in Place (Fenna and Marix-Evans, 2023) considers the powers that local authorities have to deliver Net Zero in their places, and whether they are able to deploy these powers effectively to create change. It finds that local authorities are hamstrung by:

* A lack of a defined role in Net Zero delivery
* A policy and strategy ecosystem and framework that fails to enable and support local delivery.
* Conflicting remits of public agencies which prevent ambitious authorities from delivering their aims.
* Insufficient funding and resources to develop the capacity to enable this transformative shift because funding streams are inequitably and competitively distributed and rarely long-term.

Jason Torrance (interim Chief Executive of UK100) argues (ibid) that;

“We currently have a situation where local powers to achieve Net Zero are theoretical rather than actual. Local authorities are achieving enormous change despite, not because of, the regulatory framework and the reluctance to resource them adequately to meet the challenge of climate change. Not only has a reduction in local authority funding over more than a decade impacted on capability and capacity at local level, there is also a problem with national frameworks limiting the ability of local authorities to use their powers effectively. This needs to change.”

As the LGA (2023) note, delivering net zero and mitigating climate change also requires a step change in workforce development through a strong skills and jobs pipelines that are responsive to emerging needs.

“Despite commitments and good intentions from all partners, the current system is not up to the scale of the challenge needed for such a transition, with a clear need for better alignment between net zero investments and the skills and employment system.”

The LGA (ibid) argue that new relationships and local delivery partnerships need to be forged between councils, skill providers, businesses, industries and other organisations to align the net zero and skills systems to collectively develop the green workforce needed to deliver net zero.

The Mission Zero Coalition, National Audit Office and the Climate Change Committee have all recommended introducing a local Net Zero framework to define local roles and responsibilities[[1]](#footnote-1); whilst forward-thinking local leaders and mayors are already delivering pro-growth Net Zero policies. (as demonstrated by Nottingham’s 2028 Net Zero target and Manchester, 2038); with many other areas considering how to establish new frameworks for Locally Determined Contributions. However, the Mission Zero Network report (Skidmore and Howchen, 2023) argues that a lack of clarity is creating blocks in the system for those local authorities who want to be proactive in delivering net zero.

The points above signal broad willingness and commitment to progress a more pro-environmental business support agenda set within a complex set of barriers, frustrations and constraints for all stakeholders. As researchers, programme designers and providers the team at University of Derby shared these frustrations. So, in the summer of 2023 we brought together a group of pro-environmental enterprise support (PEES) providers, supporting agencies and business representatives to seek potential solutions that could influence policy in the next political administration in 2024/25.

## Context

This White Paper is based upon research conducted by University of Derby Business School in collaboration with 21 expert providers of pro-environmental enterprise support from across the UK between 2019 and 2023, described in Paterson et al. (2022) and Gallotta et al (2024). In March 2023 we ran an online webinar for 64 participants to explore emerging insight about the nature and effectiveness of pro-environmental enterprise support that reported on our ongoing research and delivery of two ERDF decarbonisation programmes (from 2015-2021) and a more recent Community Renewal Funded programme that ended in November 2022. Then in July 2023 we invited 27 stakeholders from across the East and West Midlands region of the UK to a face-to-face event to explore in more detail how the local policy landscape and enterprise support initiatives either enable or hinder SME Net Zero transformation and what is required into the future. This involved two rounds of facilitated group dialogue focused on our two guiding questions:

* How do we make existing Pathways to Net Zero more visible/accessible to SMEs?
* How will future PEES provision deliver net zero transformation at scale and at pace?

Delegates were asked to record their responses to these questions and a series of prompts from the facilitator on response cards during the flow of the conversations. The facilitators gathered these cards at the end of each round. Responses were later analysed using a grounded approach and clustered into a series of pragmatic themes that reflected the natural language of participants.

In advance of the face-to-face event, we also conducted a value mapping exercise of Shared Prosperity Funding (SPF) tender documents from one regional area in the UK Midlands to illustrate some of the issues facing pro-environmental enterprise support (PEES) providers in the current economic and political landscape. A summary of this analysis is presented below.

Finally, the paper offers 10 key recommendation that develop a forward-looking analysis of SME Net Zero support and the local policy landscape as we move with uncertainty towards a general election in 2024 and new political administration from 2025.

## What environmental value do publicly funded programmes seek to create?

In the summer of 2023, we reviewed Shared Prosperity Funding (SPF) calls and responses across one sub-region of the East Midlands to assess the Net Zero outputs and outcomes expected from public funding. The summary analysis is present below. Although there was variation across the sub-region [D2N2] several general points are instructive.

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| --- | --- |
| 1. **NZ Value captured** (via current metrics)
* Enterprise support delivered
* *Decarbonisation plans*
* Emission reductions
* Renewables installed
* Energy efficient buildings/infrastructure
 | 1. **NZ Value blind spots**
* Natural solutions/nature connectedness
* Increased biodiversity
* Environmental accreditations achieved
* Sustainable business profiles created
* NZ pledges made (eg SME Climate Hub)
* Business advisors NZ trained
* Regional/local data feedback trends
* Co-creation & cooperative initiatives
* NZ network numbers/connectivity
 |
| 1. **NZ Value missed** (but could easily be captured)
* Increased LCEGS revenue
* New green investment attracted
* New green products
* New to firm eco-tech/processes
* New green start-up
* New green market entry
* Green jobs created/safeguarded
* Green skills training completed
 | 1. **NZ Value destroyed** (not captured)
* Carbon footprint of PEEs operations
* Advisor/consultant road miles in petrol/diesel vehicles
* Others tbd
 |

Table 1. Shared prosperity funding value measures analysis overview

In Quadrant 1, the list identifies metrics from SPF calls/responses that relate directly to Net Zero interests. These largely replay the criteria set out in the European funded programmes that preceded them, with the exception of ‘decarbonisation plans’, which were found in SPF calls in 3 of the 4 subregions. This reflects an increasing emphasis on encouraging and demanding that SMEs conduct some form of carbon/environmental auditing as a prerequisite to accessing other (higher value) benefits, such as grants or specialist support (for low emission fleet transition, supply chain sustainability or eco-innovation etc.).

Quadrant 2 lists a range of environmental and business measures not currently captured in any of the SPF calls or responses that would easily be gathered to provide useful indicators of progress, linked directly with specific programme provision.

Quadrant 3 highlights are range of standard economic measures, already typical of publicly funded programmes which, with minor amendments to data collection (as highlighted), could provide useful regional data on Low Carbon and Environmental Goods and Services (LCEGS) revenue, new green investment etc.

Finally, we note in Quadrant 4, that unlike standard guidance to firms, none of the calls or programme responses seek to measure their own impact on the environment, for example by measuring operational emissions from office buildings or staff travel. More detailed criteria for such measures remain ‘to be determined’ in this analysis.

Implicit in the above, is the point that we cannot manage what we do not measure. Similarly, we should avoid the pitfall of only valuing what we currently measure. This summary analysis makes a simple point that regions could easily gather more sophisticated data to support improved Net Zero outputs and outcomes from their funded programmes.

## Do Net Zero funded programmes respond to SME needs?

Only a few years ago, there was very little clarity about the Low Carbon/Net Zero support needs of SMEs in different circumstances and sectors and few resources specifically targeting the interests of smaller businesses. However, there have been a number of authoritative studies in recent years that have addressed these gaps in knowledge (Blundel and Hampton, 2021; British Business Bank, 2021; BSI, 2023; Friederike and Bellis, 2021) and a plethora of new pro-environmental enterprise support (PEES) provision; such that many SMEs now find the landscape of support complex and confusing. Nowadays, a significant part of the PEES challenge is to help SMEs navigate this landscape with vehicles best suited to their own specific needs. At our regional practitioner event in June 2023, we summarized this insight using the following table:

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|  | **Common barriers on NZ pathway** | **Common enablers on NZ pathway** |
| **Internal** | * Cost
* Feasibility
* Short term tenancy/landlord willingness
* Lack of technical skills
* Lack of time/competing priorities
* Access to capital/funding
* Resource constraints
* Risk/lack of risk management methods
* Weak leadership/strategic alignment
* Lack of information/knowledge
 | * Strong leadership
* Cost savings
* Risk mitigation
* Pro-environmental values
* Reputation and image
* Staff morale
* Procurement willingness
* Clearly assigned responsibilities
* Good business improvement/ decision-making tools
 |
| **External** | * Uncertain demand/economic conditions
* Lack of trusted brokers
* Access to finance
* Poor Information about opportunities
* Lack of skilled workforce
* Weak regulatory environment
* Complex admin /legal procedures for finance
* CSR/ESG frameworks too onerous
* Sectoral codes/standards inhibit innovation
* Complicated international standards
* Supply chain bottlenecks/weak processes
 | * Public subsidy/grants/tax incentive
* Compliance/regulation
* Competitive advantage
* New market opportunities
* Customer demand/ media influence
* Reputation
* Academic involvement
* Professional advice
* Peer networks
* Sector initiatives/sector leaders
* Industry standards/voluntary agreements
* Supply chain demands/process/support
 |

Table 2. Common barriers and enablers for SMEs on the journey to Net Zero

Adapted from (Blundel and Hampton, 2021; British Business Bank, 2021; BSI, 2023; Caldera et al., 2019; Friederike and Bellis, 2021; Walker and Jones, 2012)

It is not the purpose of this White Paper to provide an in-depth analysis of these needs. Table 2 is simply presented here as a backdrop to the responses outlined below to two key questions raised at our event; namely;

* How do we make existing Pathways to Net Zero more visible/accessible to SMEs?
* How will future PEES provision deliver net zero transformation at scale and at pace?

However, three points are worth emphasizing. As Figure 1. (British Business Bank, 2021) highlights, although there are some differences between sectors, lack of information and lack of capacity to make change are deemed to be much less significant barriers than cost and feasibility by business leaders in all sectors. This endorses the point made below, that helping businesses develop the capability and capacity to develop effective environmental/energy audits, strong business cases and return on investment calculations and applying these to funding and finance applications for energy/resource efficiency measures, eco-innovation and green growth measures should be a key focus for PEES provision in the coming decade.



Figure 1. Barriers to Net Zero action grouped by sector (British Business Bank, 2021)

The BSI Net Zero Barometer (BSI, 2023) survey of more than 1000 SME leaders, endorses this view, showing that 78% are proactive in demonstrating their commitment to reducing greenhouse gas emissions; three-quarters believe achieving net zero by 2050 is feasible as things stand; while 87% are committed to reaching net zero by 2050. Almost four in five businesses (79%) had some level of confidence about how they are going to reach this target with almost a third (32%) feeling extremely confident.

Secondly, whilst there is significant willingness to change, many businesses do not possess some of the basic skills to navigate the journey to Net Zero (British Business Bank, 2021; Friederike and Bellis, 2021). These include basic energy and environmental audits, waste reduction, and awareness of the low and no cost energy efficiency measures that have the potential to rapidly reduce carbon emissions whilst delivering significant cost savings and reputational benefits to the smallest firms. This means that PEES provision will need to address the needs of firms at both ends of the capability spectrum, whilst offering sufficiently differentiated, specialist support for the particular interests in different sectors.

Finally, from our analysis of the existing SPF funding measures, it is clear that funded programmes are currently driven by a focus on energy efficiency and renewable energy installations. But as our international review of PEES support (Paterson et al., 2022) and the analysis of Net Zero enablers and barriers (above) demonstrate, the journey to Net Zero requires attention to green growth (both the demand and supply of low carbon and environmental goods and services), eco-innovation (the development of new green goods and services), the development of sustainable supply chains all underpinned by responsible business mindset and the leadership skills to lead this sustainable transformation. As Paterson et al. (2022) argue, this requires supporting agencies to develop and promote a value proposition that demonstrates social outcomes alongside environmental and economic benefits for the region, as well as for individual firms. Given the scale and pace demanded by national and international environmental targets, we make the case that PEES (and all business support) providers should see the the development of eco-preneurial skills and mindset as the central and enduring purpose of supporting activities in this and coming decades. Not simply driven by climate and environmental crises, but because these also drive the creativity and innovation that lie at the heart of every successful business, big or small.

## How do we make existing Pathways to Net Zero more visible/accessible to SMEs:

Delegates expressed the strong view that UKSPF was creating a much more fragmented and ‘piecemeal’ offer to SMEs that resulted in a ‘postcode lottery’ of provision, compared with the previous ERDF funding regime.

**Learn from ‘what works’**

Whilst there was broad agreement that existing/older systems of support were too rigid and inequitably funded, there was also recognition of the value of certain strands of provision, such as Innovate UK projects and regional Skills Bootcamps, as well as for national/generic business support of the type provided by the [SME Climate Hub](https://smeclimatehub.org/) and the UK Government [Energy Efficiency for Business](https://businessenergyefficiency.campaign.gov.uk/) resources.

Our delegates recognised that successful schemes differentiated between general and tailored business support and advice. They understood where bespoke provision was needed for particular sectors and where there are benefits of cross sector engagement in more generic provision. In some areas, skills bootcamps that focused strongly on roadmaps to sustainability and carbon literacy were well attended. Similarly, standardised information and guidance, and access to support that provided cost effective sustainable knowledge, tools or resources that support place or sector defined ‘business support’ interventions were deemed successful. As well as addressing different levels of maturity, focus and sector interests of businesses, these programmes generally differentiated between three strands of support:

* operational efficiency/cost saving
* green growth measures/ revenue generating
* supply/eco innovation/ new markets.

There was also a call for a fuller academic analysis of evidence about what funded PEES provision worked well and what didn't work so well. In particular, seeking greater insight into provision that aimed to deliver a wide scale or high pace. This would require the collection and analysis of evidence from previous ERDF, CRF, SPF funded programmes and collaboration amongst providers to share data that has to date not been made public in order to shape programmes of the future. For example, via an evidence base of known 'best practice' with detailed insight in what was delivered, how it was delivered and to what effect – from programmes such as BEEP (Worcestershire); LCBEP (Stoke & Staffordshire); DE-Carbonise (D2N2); Low Carbon SMEs (GBS).

Networking and collaboration between PEES providers was considered by many to be an effective way to share knowledge about effective provision and powerful outcomes (eg [The Pro Environmental Enterprise Support Network (PEES) Guild online group](https://guild.co/app/guild/4798/feed) hosted by University of Derby).

Delegates also noted that businesses had a great deal to learn from one another and that “*SME’s from different sectors will have common issues (as well as unique) opportunity to share case studies and ideas to snowball solutions*”. This was also reflected in the value ascribed to business networking, peer-to-peer support and focus groups that share good practices and positive results, involving both large firms and regional supporting organisations (such as Chambers of Commerce, Federation of Small Businesses, Sector organisation) as well as smaller companies.

**Clear language and consistent messaging**

The language used to communicate business support opportunities needs to be tailored to the SME audience and convey the immediate business benefits of Net Zero and broader sustainability innovations, as well as providing clear information about how the benefits can be achieved, indeed have already been achieved by other similar firms. The use of case examples, in text, video and podcast formats were deemed particularly helpful in making Net Zero innovation accessible to a wide SME audience.

Delegates stressed the importance of consistent messaging from PEES providers and supporting agencies that emphasise how sustainable business practices increase profits, improve reputation with customers, provide a competitive edge, open new markets and improve the chances of long-term survival in challenging economic climate. At the heart of these comments is the simple point that provision needs to be up to date, accessible and immediately practical for SME managers, whilst recognising that needs vary over time, business maturity and sustainability trajectory.

**Better regional collaboration and consistent support**

Several delegates argued that this could be achieved with better collaboration between regional supporting agencies and organisations. Alongside a clear desire for consistent, long-term support and provision from effective delivery partners in local areas. There was a common view that provision was being duplicated and that some SMEs found the landscape of support confusing and off-putting.

There was also broad agreement that solving this would require greater integration of national and local support, and more public and private partnerships between large corporate organisations and regional development agencies that would drive more consistent funding and structure for ongoing PEES provision which would avoid the inefficiencies created by the existing funding cycles that lead to fragmented provision and loss of human capital.

One suggestion was to develop case studies of impactful, practical examples of collaboration which demonstrate strong outcomes that go beyond the low hanging fruit. For example, by setting up a local cluster grouping to deliver a collaborative Net Zero project/activity which releases benefits that no single enterprise could offer.

**A single gateway to provision**

With 53% of SMEs not yet ready to prioritise decarbonisation (British Business Bank, 2021), it remains clear that we must help raise the awareness amongst business owners and managers of the benefits and availability of support for Net Zero practices.

Many delegates argued for a ‘single place to go’ or ‘gateway’ to Net Zero provision, with others arguing that Net Zero support should be entirely integrated within BAU business support from the range of business facing support organisations. As one delegate wrote, “*Provide a single gateway that provides clear and accessible information about guidance, regulations, funding and supporting services that results in widespread awareness of help available*” from established and accredited delivery partners in local areas. They added that whilst “*most guidance will need to be self-service… 1-1 support should be accessible to SMEs with complex needs*”.

Gateways of the type provided by [Sustainability West Midlands](https://www.sustainabilitywestmidlands.org.uk/), [Sustainable East Midlands](https://www.emc-dnl.co.uk/services/sustainable-east-midlands/), [SME Climate Hub](https://businessclimatehub.org/) and [Energy Efficiency for Business website](https://businessenergyefficiency.campaign.gov.uk/) were roundly valued. Ideally, information and guidance on these sites should be combined with access to online carbon calculators that support a firm’s first independent steps on the journey to Net Zero. Implicit in this last point is the need for comprehensive and ongoing training on the benefits, opportunities and provision for Net Zero innovation available for all business advisors.

## How will future PEES provision deliver net zero transformation at scale and at pace?

Delegates outlined a number of approaches needed to support the quantum leap in net zero business practices that will be needed to radically reduce SME emissions in the coming decade. Below, these are arranged as a series of recommendations aimed at PEES providers and regional policy makers.

Recommendation 1 – **Public awareness campaign**

Much great attention to stimulating demand for Net Zero approaches, products and services is needed. For Net Zero aspirations to ‘catch fire’ amongst the vast number of micro firms, in particular, more attention needs to be given to the channels and messaging most likely to engage and appeal to the smallest businesses. Much greater use of social media, local channels and asynchronous communication (via podcasts and video media) need to be funded. It was recognised that some traction with these companies has been developed through the combination of targeted social media campaigns and online platforms as a means to engage small companies in pro-environmental behaviour change. For example, Zellar.com has been used in several funded schemes across England to help small enterprises firstly, audit their energy and emissions and then identify basic behavioural changes that support their journey to Net Zero.

Although the issue of using public funding to pay for advertising was contentious, in areas where public funding/provision was considered particularly fragmented, respondents argued that a co-ordinated, standardised public awareness campaign could significantly raise awareness and help increase the access to provision, whilst delivering outcomes at greater scale and pace. This was also noted, in relation to raising awareness of the opportunities and confidence in accessing private finance for Net Zero, energy efficiency and other pro-environmental innovations, discussed elsewhere in this paper.

Recommendation 2 - **Fit for purpose output criteria**

On one hand, some delegates argued for a ‘payment by results’ approach to funded programmes where carbon emission reductions drive funding of specific initiatives, whilst others argued for funding based on attendance and participation. Others recognised the importance of provision that focused on green skills and jobs or other forms of capacity building such as Net Zero infrastructure schemes, retrofit skills initiatives or smart mobility schemes whose emission reductions may be more difficult to quantify in the short term.

The standard menu of output criteria created for UKSPF was broadly welcomed, although various amendments and improvements were suggested (as per Table 1). Given the scale and longevity of Net Zero innovation required over the next few decades, there was a strong call for programme funding to be separated from short term political/election cycles to ensure stability and consistency of provision. This would help retain talent and knowledge within the system, as well as allowing SMEs to build relationships with support providers over time.

Recommendation 3 - **Simplify access to** **grant funding**

There was resounding acceptance that funding applications were too complex and put off many smaller businesses. However, it was argued that many energy efficiency measures, especially solar and LED lighting do not, in general, require specialist energy audits. SMEs should be supported to calculate cost/energy/carbon saving figures and create simple ROI calculations to support grant requests. This would build capacity amongst SMEs, allow more companies to go through the grant process and ensure ‘*more money is spent on energy efficiency measures*’.

However, there was a call to centrally fund accredited third-party support specialists (such as MCS for renewables) to support regional personnel who have a good understanding of energy, but need more training, resources, insight and a trusted team to fall back on where very technical processes/energy calculations are needed. For example, working out the carbon/cost savings from more technical processes such as motor replacement, air compression, new electric forklifts, insulation jackets for plastic injection moulding machines etc.

Although grant funding for Net Zero improvements is understandably attractive to SMEs and a mainstay of energy efficiency initiatives for SMEs for many years, there was a strong view that grant funding could not deliver the scale or pace of Net Zero innovation required across the SME sector.

Recommendation 4 – **Encourage greater use of private finance options**

Some of our delegates offered the view that Government funded grants (eg SPF) shouldn’t be easy to access and that Government grants should be funding of the last resort. One delegate said “*If there is another way the business can fund something, they should do that.  Grants should be for feasibility etc to enable the business to then fund through non-grant finance*”. Implicit in this view is the need for greater support for SMEs to develop the knowledge, skills and understanding of how to develop proposals from the variety of sources of private finance (from angel investors to banks) as well as public funding and grants.

As Tracey Sherratt (Senior Manager, British Business Bank West Midlands Network) showed in her presentation, 11% of SME have already accessed external finance and around 1.3 million smaller businesses are willing to consider external finance to support net zero actions. Grant funding is the most popular mechanism (58% of SMEs say they are ‘likely to choose’ grants) with only 20% ‘likely to choose’ bank loans and 3% ‘likely to choose’ equity investment (British Business Bank, 2021).

However, as Dan Carins (Policy Manager – West Midlands Combined Authority) noted in his presentation to delegates, high and increasing awareness and desire amongst business leaders to reduce their carbon footprint is not translating into investment. The Midlands Engine Observatory report (2022) into demand and supply of green finance in the Midlands shows that understanding of green finance is weak; the supply of green finance for early-stage innovation in green technology, in particular, is very limited in the Midlands; and that the stipulation of ‘novel technologies’ from funding agencies creates bottle-necks in demand for green finance. Access to information is not the major barrier to accessing finance. In addition to the growing number of websites that list the latest grant opportunities (eg [East Midlands Chamber](https://www.emc-dnl.co.uk/services/funded-support-and-programmes/)), there are useful sources of information and guidance on non-grant financial support for SMEs (eg [Net Zero Business,](https://netzerobusinessfinance.co.uk/)). [The British Business Bank Making Business Finance Work for You](https://www.british-business-bank.co.uk/finance-hub/wp-content/uploads/2023/10/making-business-finance-work-for-you.pdf) provides guidance on the types of financial support that are available at difference stages of a firm’s maturity

The Midlands Engine Observatory report (ibid, 2022, p.3) argues that demand for green finance in the Midlands Engine region is lower than the national trend and that this is due to the complexity of options, confusion, low appetite for debt, and competing priorities. Both British Business Bank (2021) and the Midlands Engine Observatory (2022) reports show that tax incentives would be the most popular form of incentive to investment alongside longer-term financial solutions and greater collaboration between carbon footprint calculators, energy providers and finance providers to overcome the reluctance to take on additional debt.

It was also argued that more businesses should develop their own business cases and ROI analyses for Net Zero initiatives in order to develop internal confidence to invest for medium- and longer-term benefits, and for fewer to rely on grant funding. However, where grant funding is appropriate, this funding should be made much more accessible to the right firms. For example, by giving businesses freedom from the ‘3 quote’ rules etc and not tying grants into job creation commitments which were often considered to be spurious criteria for grant giving.

Delegates also felt that local authorities should have a much greater role in making investment in renewables easier (e.g. solar via group purchasing) via Salix style investment pots or via procurement frameworks; and raised the prospect of widening the [ESCO/EPC approach](https://www.iea.org/reports/energy-service-companies-escos-2/esco-contracts) to energy supply to include other energy efficiency measures in order to provide ‘turn key’ solutions for businesses that are keen to move towards Net Zero approaches but without the ready funds. Alongside this, respondents noted the clear need for greater support for SMEs to select appropriate suppliers/installers via trusted and neutral brokers.

Recommendation 5 - **Digitalisation**

Delegates saw great potential for much greater integration of Net Zero and digitalisation agendas for SMEs. A range of low-cost IT/digital installations can provide SMEs with quick win efficiencies; from smart meter installation to software that turns off computers that are not in use. More sophisticated smart solutions are often considered beyond the pocket of smaller companies but as the University of Derby Smart Factory project has demonstrated, installing the monitors, infrastructure and dashboards that provide live data on temperature, energy use, air quality, light levels and other measures can be affordable for smaller companies and offer swift return on investment, particularly when combined with grants or vouchers (up to the value of £5,000). However, a key lesson from this project was that companies needed support to ensure correct installation, followed by staff training to ensure the smart technology is used appropriately. This example reflects the point that funding alone is not always sufficient to encourage energy efficiency or eco-innovation. Beyond the ‘low hanging fruit’ of shifting to green tariffs and basic behavioural changes in the workplace, more sophisticated responses can require ‘turnkey solutions’ which combine finance with trusted advice, good data, design and installation support – all in a single, easily accessible package.

This type of solution is likely to be made possible when a range of stakeholders, such as energy providers, banks and grant givers, sector bodies and regional agencies collaborate to find mutual benefit in support of SME interests.

Recommendation 6 – **Green skills academies and** **building Net Zero capacity**

Support programmes that address skills shortages and knowledge gaps of the workforce will be crucial to support de-carbonisation efforts. Alongside a host of sector specific technical requirements, skills will also need to be developed in more general areas such as product and service design, carbon foot-printing, waste management, green marketing, sustainable procurement, and supply chain management. As Polina Baranova’s presentation highlighted, there are also significant gaps in provision addressing leadership for sustainability, environmental strategy, environmental accreditation and networking.

Whilst the awareness and willingness of SMEs to address Net Zero ambitions is rising and many firms have taken basic energy and waste reducing measures, this has not translated into wide scale carbon or environmental auditing. According to the British Business Bank (2021), as few as 6% of UK SMEs have measure their carbon emissions in the last five years. In order to develop much greater scale of Net Zero business practices much greater attention should be placed on providing SMEs with the skills, knowledge and information need to be audit their own energy and resource use, conduct environmental value mapping and develop robust business cases for eco-innovation.

Delegates recognized that it will also be important to support ‘under-played’ sectors such as Agriculture, Haulage, Food Manufacturing, Hospitality and Fashion that offer the potential of high impact opportunities and a significant role to play in climate solutions.

Alongside this several delegates stressed the importance of consistent training for regional energy auditors and a nationally recognised energy audit process to support more complex Net Zero projects.

Finally, given the wide recognition that sustainability driven firms are successful firms, there was a strong call for comprehensive training and ongoing development for all regional business advisors to be fully carbon literate and informed about the range of pro-environmental enterprise support (PEES) options available to firms.

Recommendation 7 **– AI & open source regional net-zero data to drive strategic planning**

In addition to national surveys by organisations like the Federation for Small Business (Friederike and Bellis, 2021), British Business Bank (British Business Bank, 2021) and British Standards Institute (BSI, 2023), there are various sources of regional data and evidence relating to Net Zero. In addition to the [Midlands Engine Green Growth Observatory](https://midlandsengineintelligencehub.org/intelligence-sector/green-growth/), the University of Derby have been mapping low carbon business and green growth trends across the East Midlands for eight years (Baranova, 2023). These sit alongside the East Midlands Chamber [Insight Unlocked](https://www.insight-unlocked.co.uk/) business statistics reporting tool and [LGA Inform research tool – Local Green Jobs](https://lginform.local.gov.uk/reports/view/lga-research/estimated-total-number-of-direct-jobs-in-low-carbon-and-renewable-energy-sector?mod-area=E10000007&mod-group=AllLaInRegion&mod-type=comparisonGroupType), amongst other excellent sources of evidence. There was a call from delegates for greater collaboration amongst national and regional organisations to consolidate and simplify data sets and analysis to support more strategic and localised design and delivery of PEES. This does not assume additional funding or capacity being created, rather it reflects a need for greater liaison and collaboration amongst the existing teams of researchers, statisticians and knowledge managers to provide a smarter representation of insight that already exists. It is likely that artificial intelligence or other IT solutions could be used to effectively combine these existing sources of evidence in the service of Net Zero aims.

Recommendation 8 - **Aggregating demand**

In his presentation, Dan Carins described the potential for aggregating energy demand as an approach to reduce costs and lever in increasing levels of renewable supply. For example, via:

* + Energy Innovation Zones
	+ New business parks, co-location, heat networks
	+ Vertical integration of corporate supply chains
	+ Supply chain mapping, planning, resilience
	+ Consolidating supplier/installer base

Recommendation 9 - **Supply chain collaboration**

Delegates were clear that developing greater supply chain sustainability was urgently required, and a strong view was held that large companies have substantial responsibility and interests in supporting this shift. It was also felt that Net Zero supporting initiatives and agencies needed to be more proactive about collaborating with large companies in order to access/utilise their physical and financial resources, specialist knowledge and market intelligence to address the emission reduction opportunities in specific supply chains. This could involve co-creation of supply chain sustainability programmes that to address the ESG interests/responsibilities of large companies alongside the growth and productivity interests of SMEs whilst simultaneously delivering increasing Scope 3 emission reductions over time.

Recommendation 10 - **Establish local tax incentives for Net Zero and nature-based solutions.**

Given that tax incentives are considered the most powerful lever to Net Zero action, consideration should be given to how local taxes can be structured to incentivize Net Zero innovation, for example through local business rates. This could provide a particular stimulus to the challenge of firms facing the barrier of landlord inertia to energy efficiency measures.

## Endpoint

As we have shown previously (Baranova, Paterson & Gallotta, 2020), this type of integrated approach or system based leadership cannot be driven by a single entity. The success of system transformation required to deliver Net Zero across a region are usually based on activities that are based on:

* **The needs and characteristics of the Place –** demographic, economic, industrial, geographical make-up of the place
* **Evidence-based decision-making**
* **Transparent and incisive governance mechanisms**
* **Multi-stakeholder collaborations**
* **Capacity building/infrastructure for sustainable regional development**

Calls for greater clarity over Local Authorities’ roles and responsibilities, certainty over planning, guidance and data to inform decision making, consistency over funding and continuity over long term programs for local net zero delivery have long been made by organisations such as UK100, the LGA and the NAO. The Local Mission Zero Network Report was published in September 2023 (Skidmore and Howchen, 2023), not long after our event. It proposed that the UK Government should adopt a new local climate action framework and net zero partnership between local and central government that would support councils and authorities across the UK to adopt and demonstrate “both the urgency and necessity for better local net zero powers and responsibilities to be established by whoever forms the next government in 2024” (ibid p.4).

Its proposals include simplified, devolved and longer-term funding for Net Zero initiatives that provide local authorities with greater certainty; and establishing community benefit regulation for onshore renewable schemes to encourage locally focused energy projects. The Network Report also proposes amechanism (a Local Net Zero Charter) to spell out the responsibilities and partnership between the UK government, devolved governments and regional, city and local authorities (Recommendation 1) which align closely with views expressed by our delegates.

The proposals also include a local Net Zero Delivery Framework(Recommendation 3) involving a strategic plan and delivery milestones to support effective, decision making; and a Local Net Zero Data and Reporting Framework, coordinated by a national organisation (such as the Office for National Statistics ONS) to provide consistency and increase integrity of reporting across local authorities. This would provide the guidance, reporting mechanisms and additional capacity and capability support to enable local authorities to better monitor and report their net zero progress. This reporting framework could include open source and operable data held in a central repository, supported by a central government data convenor, to encourage better use of AI, future systems thinking and live feedback loops in order to identify and share successful interventions and innovation.

As we look forward to an election and a new government in 2024, it is clear that there is much to be done to help firms accelerate their shift towards Net Zero. Along with the various sources cited in this paper, we commend the perspectives provided by delegates at Developing World Class Net Zero Support in the West Midlands in June 2023, with the hope that these insights can help regional and national policy makers deliver radical improvement in pro-environmental enterprise support (PEES) towards our Net Zero ambitions.

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