
Retrofit Functional Strategy

**Mayor of the
West Midlands**



**West Midlands
Combined Authority**

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Context and ambition

Regional context

The West Midlands has the highest rate of fuel poverty of any region in England at 19.6%, with some areas experiencing much higher rates of over 40%. 55% of LSOAs in the West Midlands are in the bottom (i.e. worst) quintile when it comes to fuel poverty – nearly 3 times the national average, and only 5% are in the top quintile (the average nationally would be 20% in the bottom quintile, and 20% in the top).

Fuel poverty is widespread across the region – there are an estimated 254,000 fuel poor homes in the combined authority area according to 2022 figures, up 8% from 2020 – and is deeply entrenched, exacerbating pre-existing issues relating to health, housing quality and household incomes and acting as a brake on social mobility. Estimates suggest that some 10% of excess winter deaths are directly attributable to fuel poverty and a fifth of excess winter deaths are attributable to the coldest quarter of homes. Cold homes can also affect wider determinants of health, such as educational performance among children and young people, as well as work absences, productivity and social integration. Those who are disabled or have pre-existing health conditions, are at even greater risk of health inequalities.

At the same time, addressing fuel poverty through retrofitting the region's housing stock stands to create enormous economic, social and environmental benefits. Ensuring investment drives homes to be comfortable, decent and healthy will transform the social and economic fabric of our region by empowering people to be productive in education and employment, create pathways for alleviating fuel poverty and its systemic effects, and improving health and wellbeing outcomes.

Existing strategies and ambitions

In 2019, the West Midlands Combined Authority (WMCA) set the region a target to be net zero by 2041 and meet the ambitions set out by the Paris Agreement. In our most recent Five-Year Plan (2021-2026), modelling pathways show that a 33% CO₂ reduction by 2026 (against a 2016 baseline) is needed, with a specific programme of works across key sectors and devolved responsibilities and funding for a regional retrofit programme.

The West Midlands is also accelerating Net Zero 2041 delivery through the Regional Energy Strategy (RES), first published in 2018. This document – refreshed in 2025 – sets out the route to a smarter UK energy system by 2041, creating prosperity for the region and enabling a fairer net zero transition for our communities. The RES focuses on how to use the energy system as an enabler of decarbonisation: advocating for the devolution of retrofit policies to better co-ordinate demand-side energy efficiency and low-carbon generation in buildings with energy supply, as well as for devolving energy system and infrastructure planning abilities.

In the year following the first Five Year Plan, 2022, the West Midlands Combined Authority published the West Midlands Plan for Growth. This details a comprehensive approach to drive economic growth through high-value clusters, including plans to advance a regional retrofit programme, particularly within the Smart Energy Systems cluster (previously modern and low carbon utilities cluster). The Smart Energy Systems cluster covers technology, data, products and services to support smarter, more efficient and flexible energy usage across systems in commercial, industrial and urban settings. This includes the production, use of and services

around applications such as smart meters, smart and micro grids, digital twins, demand management technologies, energy monitoring and sensing, and others. Combined with the opportunities afforded by devolution, the West Midlands's strategic advantages in energy research and expertise, and retrofit delivery, further boosts the region's role in advancing retrofit solutions and market development, integrating energy-saving technologies and heat decarbonisation, and championing a sustainable economy.

The Plan for Growth will be augmented by the new Industrial Strategy "Invest 2035" and supporting the West Midlands Local Growth Plan. The Industrial Strategy forms a 10-year plan to deliver certainty and stability for businesses to invest in eight high-growth sectors. The Smart Energy Systems Cluster will likely align with the Industrial Strategy's Clean Energy Industries sector to cover net zero, energy and retrofit programmes; the Building Retrofit Pilot will play a critical role in enabling this. This will together with the scoping and delivery of the Retrofit Pilot, as the Industrial Strategy will be published in Spring 2025, and the West Midlands Local Growth Plan thereafter.

Funding and outcomes

Outcomes

Outcome	Outcome indicator(s)	Outputs
Reduction in direct carbon emissions from domestic buildings, with reduced fuel poverty gaps for treated households in, or at risk of, fuel poverty	Reduction in direct carbon emissions from domestic buildings upgraded (modelled)	Number of social homes with a pre-installation Energy Efficiency Rating of D-G upgraded to C or above as a result of the upgrades. Number of private low-income / fuel poor households ¹ in a property with a pre-installation Energy Efficiency Rating of D-G upgraded to C or above as a result of the upgrades. Accumulative annual household bill savings (modelled).
Reduction in direct carbon emissions from public sector buildings	Reduction in direct carbon emissions from public sector buildings upgraded	N/A

Outcomes, outputs and targets are subject to confirmation by HMG. * = indicates no target for FY25

Roles, responsibilities and current functions

The Memorandum of Understand (MoU) for the Integrated Settlement sets out the local and regional functions that will attract future devolved funding, as summarised below. The functions of the Integrated Settlement and the scope for expansion will be reviewed over time.

Integrated Settlement function	What this means
a) Retrofitting social housing; and all other residential buildings focusing on households at risk of fuel poverty in the local area; and	The Retrofit Pilot will fund retrofit activity in fuel-poor social and private housing tenures. This includes EPC D-G, low-income homes managed by registered providers of social housing, and those that are privately rented or owned. The focus of this function is on decarbonisation and fuel poverty reduction.
b) Decarbonising public sector buildings managed by the MCAs or their constituent authorities and, where deemed reasonably practicable by the DESNZ Secretary of State, by wider public sector actors.	The Retrofit Pilot will fund retrofit activity in Local-Authority-owned and non-LA-owned public buildings to abate carbon emissions and improve buildings. This includes emergency services, non-acute healthcare trusts, further education institutions and colleges, and state schools. This excludes higher education (universities) and acute and cancer NHS trusts, though they retain eligibility for the national funding.

Resources available for the coming Spending Review period

Funding line	Financial year 2025 allocation [†]	Type	Existing or newly devolved fund
Warm Homes: Social Housing Fund	£29.17m	CDEL	New
Warm Homes: Local Grant	£5.28m	CDEL	New
Public Sector Decarbonisation Scheme	£3.35m	CDEL	New

[†]Unlike other budget lines within the West Midlands' Integrated Settlement, allocations for financial years 2026/27 and 2027/28 have been published for the Retrofit Pilot, and are available on gov.uk (<https://www.gov.uk/government/publications/integrated-settlements-for-2025-to-2026>).

Key activities outside of the Integrated Settlement

Leveraging greater levels of private finance to drive retrofit and energy efficiency delivery is key to reaching our regional and national net zero targets. The devolution agreement lays the foundation for joining up the Retrofit Pilot with wider Energy Capital work on developing financial instruments and innovative funding models for attracting private finance—namely through the Local Net Zero Accelerator (LNZA) programme funded by DESNZ. The Pilot is also well aligned with the West Midlands' Net Zero Neighbourhood programme, which focuses on a holistic approach to neighbourhood-scale transitions. These include retrofit works, low carbon travel, green space interventions and local, low carbon electricity generation. At the center of these pillars is a deep focus on co-production, empowering citizens through co-design to create a vision for their very own Net Zero Neighbourhood. LNZA and Devolved Retrofit Pilot will help to drive private capital into creating Net Zero Neighbourhoods, promoting smart technologies and electric vehicle charging/integration with buildings and wider projects.

The Government is also exploring how regionally set Minimum Energy Efficiency Standards (MEES) and boosting of local enforcement capacity in the West Midlands would drive up rental housing standards, alleviate fuel poverty and decarbonise our homes.

As part of ongoing government heat network zoning proposals, the WMCA and local authorities could play a strategic role in regionally coordinating heat network zones and decarbonising space heating and hot-water-

using infrastructure. Heat network zoning will integrate with Local Area Energy Planning (LAEP) and spatial planning, which will help to develop and accelerate the West Midlands’ decarbonisation journey and work in lockstep with other net zero and energy system planning activities. These are being augmented by our work on the Innovate-UK-funded Regional Energy System Operator (RESO) role and plan (RESP), and project PRIDE (Planning Regional Infrastructure in a Digital Environment) to improve how local planning and network investment decisions are made and fast-track infrastructure and low-carbon technology deployment at a regional level to deliver net zero and green growth.

How we will invest

The retrofit funding pilot will enable delivery of the FS by using funding flexibly in the following ways:

- Developing cross-tenure, place-based schemes, which can be aligned with other funding opportunities and local improvements.
- Funding innovation and market enabling work to stimulate economic activity and grow the scale of retrofit.
- Building capacity within the CA and local authorities to plan more strategically and build a longer-term pipeline of projects and opportunities.
- Stimulating market demand and subsequently increasing private investment into net zero projects

A longer-term roadmap for development of activity in this area is set out below.

Over 2 – 3 years	<ul style="list-style-type: none"> • Develop a pipeline of investable projects, including connections to wider energy infrastructure (heat networks), public building decarbonisation and improvements, social and private housing retrofits, and innovative product and service models for transitioning buildings. • Establish a regional funding structure. • Engage investor and secure investment. • Identify and progress low risk opportunities to further objectives faster (e.g. funded rooftop solar for social housing). • Facilitate increased uptake of retrofit services in private sector housing. • Demonstrate impact across a range of areas, in particular carbon, fuel poverty, jobs and health, to make the case for renewal of the funding pilot.
Over 3 – 5 years	<ul style="list-style-type: none"> • Move from demonstrators to scale up for place-based projects such as Net Zero Neighbourhoods. • Establish and grow the quantum of investment in the regional net zero fund. • Undertake market enabling activity to grow demand. • Continue to gather market intelligence to evaluate performance and provide evidence for how to scale up market activity.
Longer term	<ul style="list-style-type: none"> • Scale up supply chain activity to meet significantly increased demand. • Facilitate development of a functioning market for retrofit and net zero projects where high-quality projects and interventions deliver tangible benefits to households and buildings, which will further increase demand.

More demand incentivizes greater investment into projects, but also into skills and job creation, elevating quality of work and building supply chain capacity. Higher market competition incentivizes innovation, which, in turn, drives down prices, improves quality and increases demand.

Place-Based Strategies

For 2025, local authorities have the option to draw down funding that will be allocated to them on a fair-share basis to increase the quality and energy efficiency of homes and public sector buildings across their areas, ideally in targeted areas within Place-Based Strategies.

Effort should be taken to embed retrofit pipelines and this Functional Strategy within the Place-based Strategies of each Local Authority. There is complementarity between the place-based, cross-tenure, outcomes-focused approach of the overall Pilot, and the strategic plan for ‘corridors’ of work, place-based targeting of interventions and priority areas for development across regions.

Looking further ahead, Local Area Energy Planning (LAEP) work and the LAEP+ tool will help LAs to map out the opportunities, constraints and improvement options for wide-scale energy system change. Use of this data will be essential to understanding the energy and infrastructure characteristics of different places within the region, identifying plausible pathways to net zero and how area-based retrofit projects can contribute to this.

Place-Based Strategies have been under development by local authorities over the course of 2025, with iterations of drafts being provided to Functional Strategy leads to inform the development of the Functional Strategies. Place-Based Strategies have been particularly helpful in setting out local authorities’ overall objectives for different geographies, the priority schemes and subject-relevant context. From the outset, the intention with Retrofit funding in the Integrated Settlement has been to allow a significant amount of determination by Local Authorities in approaching how to spend their allocation, giving them the biggest possible opportunity to integrate their allocation with the priorities of their Place-Based Strategies.

For the Retrofit Functional Strategy, the Place-Based Strategies have also provided the following insight:

- Across the region, there is good strategic alignment between the Functional Strategies and the Place-Based Strategies - the Place-Based Strategies identify priority areas (often of social housing) for trying to achieve domestic retrofit at scale, they acknowledge the wider aim of trying to stimulate the ‘willing to pay’ market and the aim of building Retrofit and Smart Energy System skills. These are all elements of the Retrofit Functional Strategy;
- There are local pockets of high retrofit need that coincide with priority areas in Place-Based Strategies - although the number of households in the region in fuel poverty (using the fuel poverty metric from DESNZ) is much higher than the national average (21.8% compared to 13.1%), the Place-Based Strategies identify hyper local pockets where fuel poverty is much further below even this regional average. For example, LSOA 058G in East Birmingham near Bordesley Green has 48.4% of properties experiencing fuel poverty, Birmingham 070D; LSOA 031E in Walsall has 40%, LSOA 028E in Coventry 39.1%.
- The Place-Based Strategies explicitly acknowledge wider climate change and Net Zero objectives – the Place-Based Strategies discuss how local authorities are coordinating their Net Zero levers to

work towards these goals. For example, Birmingham City Council's Place-Based Strategy discusses the interrelationship between their programmes to engage the energy sector to decarbonise the energy supply, creating Heat Zoning Networks and using place-based programmes (like Knowledge Quarter) to deliver change;

- The Place Based Strategies, such as Birmingham City Council's, acknowledge the relationship between fuel poverty and other housing outcomes that point to inclusive growth challenges. The need to retrofit homes for energy efficiency alone is not sufficient and these same homes can be non-decent and hard to improve due to the lack of ability to influence change in Privately Rented Sector.

Integration with other Functional Strategies

The ways in which the retrofit pilot will overlap and could integrate with the other Integrated Settlement pillars are detailed below:

Skills: Growth of retrofit activity within the region will generate opportunities to create more skilled jobs and higher levels of competence. This should be closely linked with the local supply chain to ensure the workforce has strong demand to drive supply, and that local suppliers are included within innovative retrofit service models that aggregate retrofit demand – as will be brought forward through the pilot's innovation work. There is a need to understand likely employer and individual demands for retrofit work and explore where the workforce can be sourced from and what the gaps are between the current and new skills needs.

Transport: There may be opportunities to deliver active travel improvements and advice alongside retrofit, or more significant interventions alongside larger place-based projects. This is particularly relevant when facilitating the electrification of transport and of buildings and heat in the West Midlands. LA-delivered interventions across sectors can be more effectively integrated through LAEP and pipeline co-ordination locally and regionally to support grid distribution and transmission upgrades. This should also be considered alongside energy saving and on-site generation opportunities from infrastructure upgrades/construction – taking advantage of renewable energy generation, energy efficiencies and demand flexibility to use energy in a smart way for the benefit the whole energy system.

Housing and Regeneration: Retrofitting of housing stock at scale will increase the volume of high-quality housing and places in the region and create more decent affordable homes. Retrofit interventions through the pilot should be coordinated with funding targeted at improving housing decency within the private and social rented sectors. Existing funding may include the Social Housing Quality Fund (SHQF), Affordable Homes Programme and Retrofit Pilot funding allocated for improving social homes across the region. There may also be opportunities to facilitate funding for retrofitting within existing estate regeneration schemes, and building repair, maintenance and improvement works, among others. For example, innovation work in the Retrofit Pilot targeted at creating financially serviceable and attractive retrofit offers for landlords could be aligned with work in the Housing and Regeneration pillar to offer home improvement grants, boost enforcement capacity of Minimum Energy Efficiency Standards (MEES) and Housing Health Safety Rating System (HHSRS) and strengthen landlord licensing schemes. Finally, promotion of low-carbon heating and wider retrofit measures for existing building stock, alongside strong regulatory framework, should form part of the engagement

activities and general market movement towards increasing the sustainability of new-build social housing, preventing the need for retrofitting these properties in order to meet our net zero targets.

Local Growth and Place: Given that a high proportion of retrofit projects put forward by local authorities will be based around a place or neighbourhood, there is likely to be overlap with other place-based approaches and will depend on the specific needs and opportunities within each place. Building retrofit interventions, and the supply chain delivering them, should be closely interlinked with the strategies and activities underpinning Local Growth and Place. These include Business Growth West Midlands (Business Energy Advice Service and business/commercial decarbonisation services within it); West Midlands Investment Zones and cluster growth activities (Smart Energy Systems Cluster); and West Midlands Plan for Growth or West Midlands Growth Plan (linked to the new National Industrial Strategy) for local manufacturing, industrial decarbonisation and more. Particularly on the regional BEAS pilot and future expanded service, it is key that the NZ and Building Retrofit activities are closely aligned, and pipelines coordinated. This will ensure that industrial/commercial, public, and domestic building retrofits can be joined up locally to achieve greater impact.

Inclusive growth

The Retrofit Pilot's Outcomes Framework and Monitoring and Evaluation regime are aligned with the Inclusive Growth Fundamentals. Our logic model, indicators and measurement for the Pilot are consistent with those developed with the Inclusive Growth team through the Net Zero Neighbourhoods Programme and Local Net Zero Accelerator Programme.

Policy Aim	Inclusive Growth contribution through Proposed Project
A healthier West Midlands, increasing healthy life expectancy and tackling health inequalities	The Pilot specifically focuses on improving housing quality for those who are likely to be at risk of fuel poverty (low EPC and low income), with a predominant social housing focus. Therefore, the nature of this funding ensures we are helping to reduce energy bills in the long term, reduce fuel poverty risk and tackle health inequalities in our housing stock.
A happier West Midlands, improving mental health and driving inclusion for all our communities	As with ensuring a healthier West Midlands, this Pilot focuses on improving homes who are likely to be in high fuel poverty risk. Fuel poverty is known to have detrimental effects on the health and wellbeing of many households, and therefore the project will help to address some of these issues by retrofitting homes and improving their quality.
A better-connected West Midlands, where transport connects all communities to opportunities	The Pilot will support the creation of Net Zero Neighbourhoods (which may include public realm/travel infrastructure improvements) and promote smart technologies and electric vehicle charging/integration with buildings.
A more prosperous West Midlands, where everyone can contribute to and benefit from a globally competitive regional economy	This Pilot will help develop the West Midlands retrofit supply chain. The learning and outputs from this project will support Energy Capital's SMART Hub (team responsible for developing a sustainable market for retrofit) objectives of supporting job creation, skills and competency growth, business opportunities and market development throughout the supply chain.
A greener West Midlands, where we reduce carbon emissions to address the climate crisis	The Pilot will directly reduce carbon dioxide emissions from buildings and will promote climate adaptation across all projects.

A fairer West Midlands, where we support marginalised and vulnerable groups

Fuel poverty is widespread across the West Midlands, but particularly acute across Dudley and the wider Black Country. The Pilot will help control or reduce fuel bills, thereby increasing household resilience, supporting those at risk of cold-related illnesses and empowering the community to take an active role in improving the local area.

The Pilot also aims to explore training and upskilling opportunities for residents in the neighbourhood to access future employment opportunities in the low carbon sector.

Funding delivery

A target operating model (TOM) for the retrofit pilot is being developed to deliver the full Pilot value of £167.1m, building on proposals developed by WMCA and discussed with Local Authorities. The intention is to move away from funding allocation through competition and to provide local authorities with greater certainty over their funding allocations across the three-year Pilot period, and with greater flexibility to develop projects within the criteria set by the outcome's framework.

The current working proposal is to allocate a nominal funding amount to each local authority using the same quantum formulae used to calculate the regional Pilot funding value. Both the WMCA programme value and the individual allocations will be based on publicly available data to work out a fair share of the national scheme: either based on numbers of eligible homes or public sector floorspace. With this funding certainty, local authorities, housing associations and public organisations would then be able to work up their retrofit pipeline and submit an Expression of Interest to draw down on development funding. This will provide greater certainty over delivery and costs before entering project delivery: requiring high-level details of the project and how it will meet the scheme objectives. The next stage, to access delivery funding, would be to submit a fully costed business case, informed by the development-stage information. As set out in the accompanying programme business cases, local authorities will need to provide match funding to complement the Integrated Settlement grant.

While ensuring regional equality of opportunity, funding may be reallocated where organisations do not submit expressions of interest or where additional programme-level spend is available. The reallocation process will likely rank projects by impact and feasibility. Authorities should maintain 'over-programmed' pipelines in case of additional funding. Projects must report monthly to WMCA to track progress, outcomes, and required changes, as outlined in the scheme guidance and Grant Funding Agreement schedules (to be published in late February).

The grant to WMCA for the Buildings Retrofit Pilot is capital funding with up to 15% provision for revenue spend. There is no specific revenue funding associated with central programme management costs. While this was raised with government as an issue during negotiations, no additional funding for central programme management costs was made available, and this will need to be funded from the overall 15% revenue allowance.

While WMCA has a successful track record in delivering government-funded retrofit programmes (SHDF Waves 1 and 2.1 and HUG), the Pilot will require a significant step up in the scale of activity, as it will be over

five times the size of previous programmes, and with a wider focus. The top slice is essential to prevent failure of the scheme. In addition, DESNZ have historically procured the services of Turner & Townsend, Ricardo, Salix, PwC, ARUP, etc. to deliver technical compliance advice, monitoring and evaluation, quality assurance and financial audit/reconciliation, etc. The cost for these services were never borne by individual programmes and therefore did not form part of the 15% revenue budget. However, WMCA will now be required to take on these programme management functions within the Retrofit Pilot and is planning to develop these in-house. The cost will need to be budgeted against the 15% revenue allowance and will need to be recruited as soon as possible.

WMCA is proposing that £9.48m (equivalent to 5.7% of the Government Grant) is retained as programme-level costs for administrating, monitoring, and managing the pilot funds, as well as project development, technical support, and for market development and innovation activities. Of these costs, £4.90m will be for market development and capacity-building activities, such as encouraging the uptake of retrofit services by willing-to-pay and able-to-pay households or setting up a regional advice service. This work will also align with the £6.2m DESNZ-funded Local Net Zero Accelerator programme (2024-2026), which is looking to develop a project pipeline and finance mechanisms to increase investment into net zero projects, like Net Zero Neighbourhoods, across the region.

Funding Line	Allocation Mechanism	CA-LA funding delivery forum	Decision/ communication of LA allocations / projects	Requirements on LAs to access funding	Document required by CA to release funding	CA approval timeline
Warm Homes: Social Housing Fund	Onward awarded / commissioned	Building Retrofit Pilot Programme Panel	LA provisional allocations have been communicated via Retrofit Officers Group / Net Zero Directors / FDs and will be published in late February in scheme guidance	Stage 1: Eols (from 1 Apr) for development funding. Stage 2: modified business cases (from 1 Apr) for delivery funding	New programme business case	WMCA Board (March)
Warm Homes: Local Grant	Onward awarded					
Public Sector Decarbonisation Scheme	Onward awarded / commissioned					