
Making climate risk useful in project decisions

A practical insight for local authorities

Delivered for Innovate UK's Net Zero Living Programme by Bankers Without Boundaries



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This note explains how lenders and investors increasingly treat climate as a standard risk factor, and what local authorities can do to respond without needing specialist modelling. It focuses on cost savings, service reliability and risk reduction. Examples are drawn from housing, energy and roads/transport.

It is not a new compliance framework. It helps project teams present information in a way that matches the questions funders, insurers and delivery partners already ask. Use cases include: shaping a project brief, preparing an options appraisal, supporting an internal business case, and improving readiness for procurement and funding conversations. This briefing note has been prepared and delivered for Innovate UK's Net Zero Living Programme by Bankers Without Boundaries.

1. Why this matters for local authorities

Local authorities are working to decarbonise homes, buildings and infrastructure while also dealing with budget pressure, ageing assets and delivery constraints. In that context, climate work should be easiest to defend when it clearly supports core duties: keeping services running, lowering operating costs and avoiding avoidable future spend.

Over time, the language and emphasis used in national policy can shift. At points this can mean less focus on terms like net zero or decarbonisation, and more focus on delivery priorities such as affordable bills, energy security, housing supply and resilient services. For local authorities, the practical implication is that climate work is most durable when it is described in those everyday outcomes and linked directly to things like cost control and service reliability.

At the same time, lenders and investors increasingly treat climate as a standard part of due diligence, not as a separate impact agenda. Financial regulators in the UK have been tightening expectations on how banks, insurers and asset managers identify and manage climate-related risks. This reinforces a simple point for project owners: even if policy language changes, finance processes continue to ask for evidence that climate risks are understood and managed.^{1,2}

This note is written for local authority teams who sponsor projects or convene partners. It sets out a practical approach that helps investors and lenders do their own risk work, while making the local authority's project easier to finance and deliver.

2. Key terms

The terms below are used by investors and lenders. They are included here so that teams across an authority can use a shared vocabulary.

Many councils already work with risk registers and business cases, but the language used by funders can feel unfamiliar. This short glossary helps climate and project teams translate investor language into day-to-day council decisions.

¹ Financial Conduct Authority (FCA). Sustainability reporting requirements and TCFD aligned reporting requirements.

² Bank of England Prudential Regulation Authority. Enhancing banks' and insurers' approaches to managing climate-related risks (PS25/25). March 2026.

Table 1: Key terms and definitions

Term	Definition
Climate risk	How climate change affects costs, service performance and asset value over time - through maintenance, downtime and insurability. ^{3,4}
Physical risk	Impacts from flooding, heat and drought. Can damage assets, disrupt services and raise insurance costs. ^{5,6}
Transition risk	Policy, technology and market shifts toward a lower-carbon economy - changes what is allowed, affordable or expected. ⁷
Liability risk	Legal duties, safety obligations and disclosure expectations where foreseeable hazards are not managed. ⁸
Due diligence	Checks a funder runs before committing capital: design, delivery, permissions, costs, contracts and risks.
Insurability	Whether a project can get adequate insurance at a reasonable cost. Insurers increasingly consider climate hazards. ⁹
Covenant	A rule in a loan agreement, e.g. a minimum income-to-debt ratio. Breach may require refinancing or action.
Whole life cost	Total cost over an asset's life - not only build cost. Includes maintenance, energy use, repairs and downtime.

3. Business cases and climate

In this note, "business case" means a clear explanation of affordability and deliverability: what the project costs, what it saves, what risks could increase future spend, and how services will keep running reliably. This is the same logic behind cabinet reports, capital programme decisions and options appraisals.

The cost of borrowing has risen from the very low levels seen in the 2010s. When money is cheap, a wider range of projects can meet debt payments even if the underlying business model is weak. When borrowing is more expensive, funders pay closer attention to operating costs, delivery risk and long-term performance.

³ UK Government. TCFD aligned disclosure application guidance (public sector). GOV.UK. (Accessed March 2026).

⁴ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

⁵ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

⁶ UK Climate Risk (CCRA3). Technical Report Chapter 4: Infrastructure. (2021).

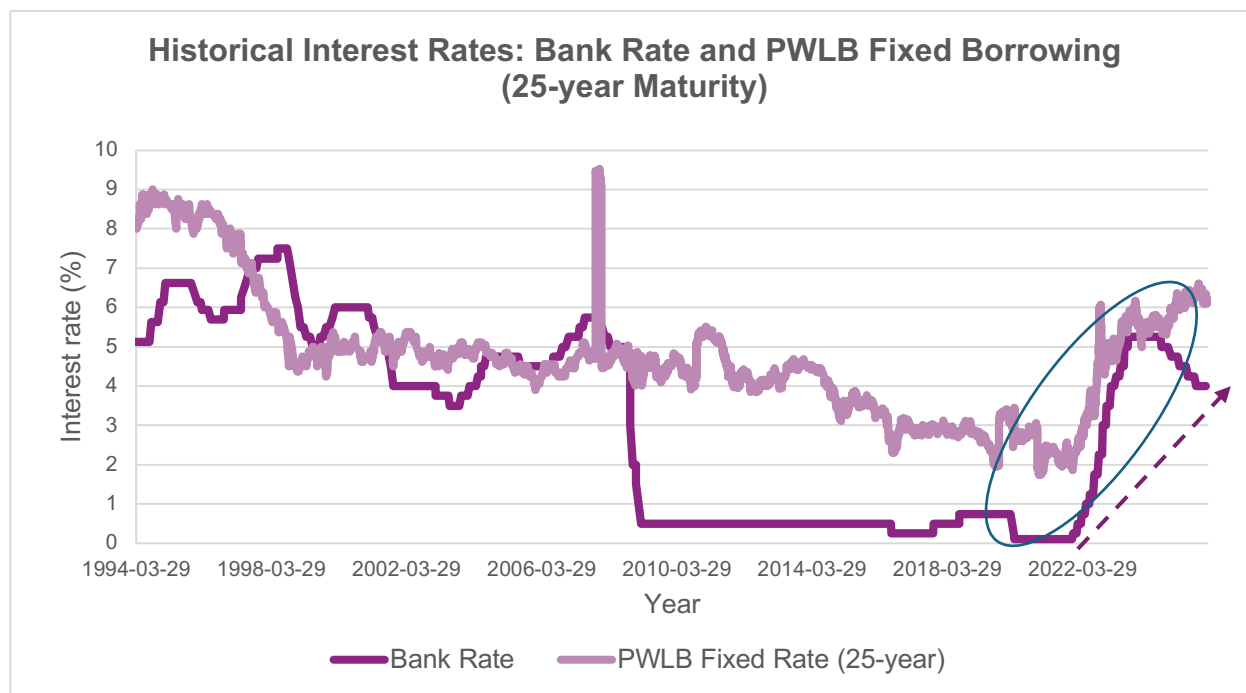
⁷ IFRS Foundation. IFRS S2 Climate-related Disclosures (issued June 2023). IFRS website. (Accessed March 2026).

⁸ IFRS Foundation. IFRS S2 Climate-related Disclosures (issued June 2023). IFRS website. (Accessed March 2026).

⁹ UK Government. Flood Re (flood re-insurance scheme). GOV.UK. (Accessed March 2026).

This matters for local authorities and their delivery partners. Many projects rely on savings over time, stable service performance, or predictable operating costs. If climate hazards increase repair bills, raise insurance premiums or reduce uptime, funders will reflect that in their view of affordability and risk.^{10,11,12}

The practical takeaway is positive. Measures that reduce climate-driven downtime or lower running costs can strengthen a business case in the same way as any other efficiency improvement. They can also reduce the uncertainty that makes funders cautious.



4. How climate risk shows up in mainstream due diligence

Climate risk is now part of routine questions asked by funders, advisors and insurers. This is driven by experience of weather disruption and by disclosure and risk management expectations from regulators and standards setters.^{13,14,15}

Due diligence is best thought of as structured common sense. A funder is checking whether the project can be delivered as described, whether costs could move, and whether performance could be interrupted by foreseeable issues. Providing a simple, consistent pack early can reduce back-and-forth and help avoid last-minute requests that slow procurement or funding approvals.

¹⁰ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

¹¹ UK Climate Risk (CCRA3). Technical Report Chapter 4: Infrastructure. (2021).

¹² UK Government. Flood Re (flood re-insurance scheme). GOV.UK. (Accessed March 2026).

¹³ Financial Conduct Authority (FCA). Sustainability reporting requirements and TCFD aligned reporting requirements.

¹⁴ IFRS Foundation. IFRS S2 Climate-related Disclosures (issued June 2023). IFRS website. (Accessed March 2026).

¹⁵ Bank of England Prudential Regulation Authority. Enhancing banks' and insurers' approaches to managing climate-related risks (PS25/25). March 2026.

4.1 What funders typically look for

The detail varies by sector, but the same themes recur. Funders want to understand whether climate hazards could change costs or service delivery, and whether the project has a credible plan to manage them.

- ▶ Site and asset exposure: Is the location exposed to known hazards such as surface water flooding, river flooding or overheating? What is the evidence used to assess this? ^{16,17}
- ▶ Design response: Are the design choices appropriate for expected conditions over the life of the asset, and are they proportionate to the risk? ^{18,19}
- ▶ Delivery and operations: Who is responsible for maintaining performance over time, and are they funded and contractually required to do so?
- ▶ Insurance and residual risk: What risks remain after mitigation, and are they insurable? What is the plan if insurance becomes more expensive or harder to obtain? ²⁰
- ▶ Governance and monitoring: How will risks be reviewed during delivery and operation, and what triggers would lead to additional action? ²¹

4.2 Why this is becoming standard practice

Three signals have reinforced climate risk as a mainstream consideration:

Table 2: Three drivers making climate risk mainstream

<p style="font-size: 2em; font-weight: bold; margin: 0;">01</p> <p style="font-weight: bold; margin: 5px 0 0 0;">Regulatory pressure</p> <p style="font-size: 0.9em; margin: 0;">Regulators require banks and insurers to embed climate risk into governance, risk management and stress testing. ²²</p>	<p style="font-size: 2em; font-weight: bold; margin: 0;">02</p> <p style="font-weight: bold; margin: 5px 0 0 0;">Disclosure frameworks</p> <p style="font-size: 0.9em; margin: 0;">Organisations must explain how they identify and manage physical and transition risks, and how these could affect performance. ²³</p>	<p style="font-size: 2em; font-weight: bold; margin: 0;">03</p> <p style="font-weight: bold; margin: 5px 0 0 0;">National climate evidence</p> <p style="font-size: 0.9em; margin: 0;">UK evidence highlights growing infrastructure and health exposure to flooding and heat - making resilience critical in long-life assets. ^{24,25,26}</p>
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5. Practical actions for local authorities

¹⁶ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

¹⁷ UK Climate Risk (CCRA3). Technical Report Chapter 4: Infrastructure. (2021).

¹⁸ HM Treasury. Green Book supplementary guidance: climate change and the environment. GOV.UK. (Accessed March 2026).

¹⁹ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

²⁰ UK Government. Flood Re (flood re-insurance scheme). GOV.UK. (Accessed March 2026).

²¹ UK Government. TCFD aligned disclosure application guidance (public sector). GOV.UK. (Accessed March 2026).

²² Bank of England Prudential Regulation Authority. Enhancing banks' and insurers' approaches to managing climate-related risks (PS25/25). March 2026.

²³ IFRS Foundation. IFRS S2 Climate-related Disclosures (issued June 2023). IFRS website. (Accessed March 2026).

²⁴ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

²⁵ UK Climate Risk (CCRA3). Technical Report Chapter 4: Infrastructure. (2021).

²⁶ Climate Change Committee. Progress in adapting to climate change: 2025 report to Parliament. (2025).

local authorities do not need to replicate investor models. Their value is to set clear outcomes, reduce avoidable uncertainty, and make it easy for bidders and funders to price and manage risk. The steps below are designed for teams with limited time and technical capacity. ²⁷

Most councils already have a project lifecycle with established documents. The actions in this section are designed to sit inside those existing steps. They help you add a small number of climate risk and whole life cost considerations in the places that matter most to investors and insurers.

Table 3: Five practical steps for local authorities

<p>01</p> <p>Set the brief</p> <p>Define service outcomes as climate requirements</p>	<p>02</p> <p>Build evidence pack</p> <p>Hazard maps, site data, previous incidents</p>	<p>03</p> <p>Use procurement</p> <p>Require bidders to show risk management plans</p>	<p>04</p> <p>Whole life cost</p> <p>Compare options on total cost, not just capital</p>	<p>05</p> <p>Monitor indicators</p> <p>Track a small set of practical resilience metrics</p>
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5.1 Put climate risk in the brief as a service requirement

Start with the outcomes the authority must protect. For example, keep a facility usable during hot periods, reduce the likelihood of road closures after heavy rain, or prevent overheating in homes. When outcomes are clear, bidders can propose proportionate design responses and funders can see a credible performance plan.

5.2 Use simple screens and credible evidence packs

Most climate risk work at early stage is not complex modelling. It is basic due diligence: hazard maps, site constraints, previous incidents, and any known dependencies such as power, water or drainage. Capture this in a short project evidence pack that can be shared with delivery partners and funders.

5.3 Let procurement do the heavy lifting

Contracts and specifications are often where risk management becomes real. Procurement can require bidders to show how they will manage heat and flood risks, what performance they guarantee, and what risks sit with which party. This reduces ambiguity and makes pricing more transparent.

5.4 Make whole life cost and service continuity visible

A common reason resilience is underfunded is that only capital cost is visible. Where possible, compare options on whole life cost. Include expected energy use, maintenance, likely repairs and the cost of disruption. The Green Book approach supports appraisal that accounts for climate effects in the baseline. ²⁸

²⁷ HM Treasury. Green Book supplementary guidance: climate change and the environment. GOV.UK. (Accessed March 2026).

²⁸ HM Treasury. Green Book supplementary guidance: climate change and the environment. GOV.UK. (Accessed March 2026).

5.5 Monitor a small set of indicators

Monitoring does not need to be complex. A small set of practical indicators can show whether resilience measures are working and provide evidence for future funding decisions.

Table 4: Resilience monitoring indicators

Indicator	What it shows	Frequency
■ Service disruption	Days lost to heat, flood or storms vs. previous years	Annual
■ Energy & maintenance spend	Cost per m ² vs. baseline - tracks retrofit efficiency	Annual
■ Emergency repairs	Number and cost after heavy rainfall events	Per event
■ Insurance signals	Availability and premium changes for key assets	At renewal
■ Maintenance completion	Planned resilience work: drainage and heat measures	Quarterly

6. Adaptation and resilience: why it cannot be an afterthought

Adaptation is the set of actions that reduce harm from climate impacts that are already happening or expected to happen. For local authorities this includes protecting residents and services from flooding, overheating and other hazards.

Internationally, adaptation is widely described as underfunded relative to need. The UNEP Adaptation Gap Report highlights the gap between adaptation needs and current finance flows.²⁹ In the UK, the Climate Change Committee has repeatedly warned that preparation for climate impacts is not keeping pace with risk.³⁰

For projects, this has a straightforward implication. If an asset is likely to face higher flood or heat exposure over its life, resilience measures can be a form of cost avoidance. They reduce future repair bills, reduce disruption, and help preserve insurability and value.

Global evidence also supports the idea that well-targeted adaptation investments can deliver benefits that outweigh costs. For example, the Global Commission on Adaptation estimated that investing in resilience across selected areas could generate large net benefits.³¹ Local authorities do not need to adopt global ratios, but the principle helps: avoiding damage and downtime is often cheaper than paying for repeated recovery.

²⁹ United Nations Environment Programme (UNEP). Adaptation Gap Report 2024: Come hell and high water. (2024).

³⁰ Climate Change Committee. Progress in adapting to climate change: 2025 report to Parliament. (2025).

³¹ Global Commission on Adaptation. Adapt Now: A Global Call for Leadership on Climate Resilience. (2019).

7. Practical examples: where cost savings and risk reduction are tangible

These examples show the kinds of questions that come up when a project is funded or insured, and the responses that can reduce uncertainty. You can treat them as prompts: what would the equivalent issue be in our project, and what is a proportionate response?

Table 5: Sector risk and business case overview

Sector	Key climate risk	Business case benefit
◆ Housing Retrofit	Overheating, flooding, damp	Lower bills, fewer call-outs, improved insurability
◆ Local Energy Assets	Flood risk to plant rooms, outage exposure	Lower outage risk, stronger investability, predictable costs
◆ Roads & Transport	Heavy rainfall, potholes, washouts	Fewer emergency repairs, predictable maintenance, less disruption

7.1 Homes and Housing Retrofit

In housing, climate risk shows up as higher energy bills, resident vulnerability to heat, and greater exposure to flooding or damp. Energy efficiency is widely recognised as a route to lower bills and improved energy security.³² The UK Climate Change Risk Assessment also highlights risks to health and wellbeing from high temperatures in homes and other buildings.³³

- ▶ Prioritise measures that reduce bills reliably, such as fabric improvements, before relying on behavioural savings.
- ▶ Include a basic overheating check, especially for flats and south-facing homes, and plan for shading and ventilation where needed.
- ▶ Where flood exposure exists, include property-level measures and maintenance plans that reduce repeated damage.
- ▶ Document how the programme reduces call-outs, complaints and emergency repairs, and how this affects ongoing budgets.

7.2 Local energy assets and projects

Energy projects often sit at the intersection of infrastructure risk and service delivery. A simple example is the siting of plant rooms and substations. If critical equipment is placed in a flood-prone basement, the project can face higher outage risk, higher insurance costs and more expensive contingency measures.

- ▶ Choose sites and layouts that reduce exposure to flood and overheating risks, and record the reasoning in the project evidence pack.

³² House of Commons Library. Energy efficiency of UK homes. Research briefing CBP 9889. (2025).

³³ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

- ▶ Build whole life cost into option selection, including maintenance, replacement cycles and the cost of downtime.
- ▶ Use procurement to require performance and resilience commitments that match the authority's service needs.
- ▶ Engage early with network operators on connection constraints and programme risk, and record what has been agreed and what remains open.

7.3 Roads, drainage and transport assets

Roads and transport networks are central to most authorities' duties. Climate impacts can increase potholes, washouts and disruptions, particularly where drainage is inadequate or assets are already deteriorated. National evidence highlights flooding as a key risk to infrastructure, with climate projections indicating increased likelihood of heavy precipitation.³⁴

- ▶ Use asset criticality to prioritise resilience spend on routes that support emergency access, schools and key services.
- ▶ Include drainage performance and maintenance as part of the programme, not as a separate issue.
- ▶ Where resurfacing is planned, specify materials and standards that tolerate expected heat and rainfall conditions.
- ▶ Track avoided closures and reduced emergency repairs as part of the value for money story.

8. Templates for project teams

These templates provide a simple way to pull key points together so that climate risk and whole life cost considerations are captured once and reused. They are designed to sit alongside standard council documents - not replace them.

8.1 A one-page project evidence pack

A short evidence pack can remove repeated questions later and helps funders, partners and internal decision makers work from the same facts. It can be as simple as one to two pages plus appendices.

Table 6: Project evidence pack components

Item	Content	Purpose for funders
□ Project summary	What will be built or delivered, where and why	Sets context for funders and delivery partners
□ Service outcomes	What must stay operational during heat, flooding or other hazards	Shows what performance is being protected
□ Site and hazard screen	Known hazards and evidence sources used ^{35,36}	Demonstrates due diligence on location-specific risk

³⁴ UK Climate Risk (CCRA3). Technical Report Chapter 4: Infrastructure. (2021).

³⁵ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

³⁶ UK Climate Risk (CCRA3). Technical Report Chapter 4: Infrastructure. (2021).

□ Design response	Measures included and proportionality rationale	Answers: is the design fit for expected conditions?
□ Delivery plan	Key milestones, planning status and dependencies	Reduces delivery risk concerns (e.g. grid connection)
□ Operations plan	Who maintains performance, funding and monitoring	Answers: who keeps performance on track over time?
□ Risk allocation	Which party manages which risk and how it is mitigated	Removes ambiguity for insurers and lenders
□ Insurance	Expected approach and any early market feedback ³⁷	Signals residual risk is manageable

8.2 Procurement prompts that reduce uncertainty

Procurement is one of the most effective levers for local authorities to make climate risk management real. The prompts below are designed to be readable and proportionate.

- ▶ Ask bidders to describe the top climate-related risks to delivery and operation, in plain language.
- ▶ Require a simple risk allocation table and clear responsibilities for ongoing performance.
- ▶ Ask for evidence that the design can cope with likely heat and rainfall conditions over the asset life³⁸.
- ▶ Ask how the bidder has considered maintenance, replacement and disruption costs, not only capital cost.
- ▶ Ask what would change if insurance becomes more expensive or harder to obtain.

Rishi Madlani – investor perspective

“Ultimately, climate resilience is about protecting the services residents rely on. The same questions investors ask, about reliability, operating costs and future risk, are the questions cabinet members and finance directors ask. When councils make these linkages visible early, it creates a clearer, more defensible pathway from project idea to funding approval and delivery.”

Key implication: Projects that frame resilience choices in terms of operating costs, downtime and insurability - rather than sustainability goals alone - are easier to assess, price and approve.

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Conclusion

³⁷ UK Government. Flood Re (flood re-insurance scheme). GOV.UK. (Accessed March 2026).

³⁸ UK Government. UK Climate Change Risk Assessment 2022. Presented to Parliament January 2022. GOV.UK.

Climate risk is no longer a specialist topic that sits beside "core" project decisions. It is already part of how funders, insurers and delivery partners test whether a scheme is affordable, deliverable and resilient over its lifetime. For local authorities, this means being clear and consistent on a small set of basics that directly affect budgets and service reliability: where the risks sit, what has been done to reduce them, what performance is expected, and who maintains that performance over time.

The practical opportunity is that many resilience choices act like any other efficiency measure. They can reduce avoidable future spend, lower disruption, and reduce uncertainty that can otherwise slow approvals, procurement, or financing. When these choices are made visible early, projects are easier to compare, easier to price, and easier to defend internally.

For climate and sustainability teams, this is a useful way to stay connected to day-to-day priorities. The most valuable contribution is often not producing another strategy document, but helping project sponsors, finance and procurement colleagues answer the questions that external parties will ask anyway.

Put simply, if climate risk is described in the language of operating costs, downtime, maintenance, and insurability, it becomes part of routine decision making rather than an optional add-on.

References

[1]	HM Treasury. Green Book supplementary guidance: climate change and the environment. GOV.UK. (Accessed March 2026).
[2]	UK Government. TCFD aligned disclosure application guidance (public sector). GOV.UK. (Accessed March 2026).
[3]	Financial Conduct Authority (FCA). Sustainability reporting requirements and TCFD aligned reporting requirements.
[4]	IFRS Foundation. IFRS S2 Climate-related Disclosures (issued June 2023). IFRS website. (Accessed March 2026).
[5]	Bank of England Prudential Regulation Authority. Enhancing banks' and insurers' approaches to managing climate-related risks (PS25/25). March 2026.
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[9]	United Nations Environment Programme (UNEP). Adaptation Gap Report 2024: Come hell and high water. (2024).
[10]	Global Commission on Adaptation. Adapt Now: A Global Call for Leadership on Climate Resilience. (2019).
[11]	House of Commons Library. Energy efficiency of UK homes. Research briefing CBP 9889. (2025).
[12]	UK Government. Flood Re (flood re-insurance scheme). GOV.UK. (Accessed March 2026).

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