

Funding the Future

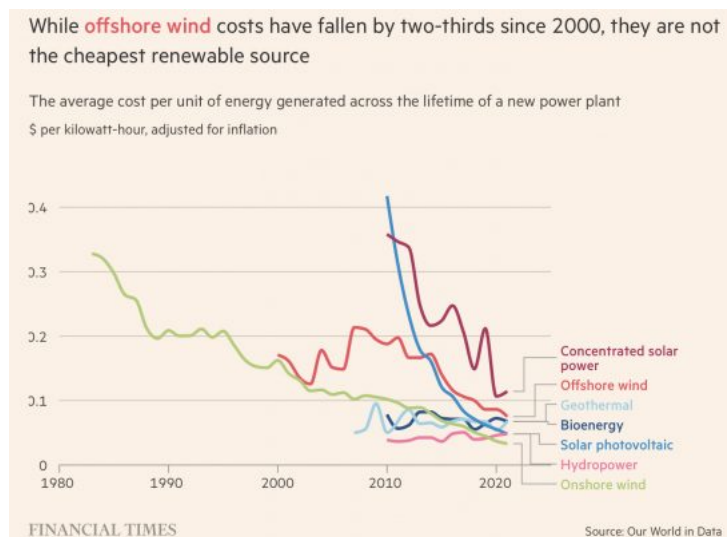
Why has government funding for renewables run into a brick wall?

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As [the FT notes this morning](#):

Swedish developer Vattenfall spent years developing plans for almost 140 turbines across a 725km-squared patch [of the North Sea off East Angkia], each one up to 350 metres high and with blades spanning up to 300 metres wide. Last month, it stopped the project. Surging costs of everything from turbines to labour and financing rendered it unviable given the low price locked in for its electricity, the company said.

I have heard some suggest that this means renewables are now dead. Maybe that is what the government would like us to think. But it is not true. The same article notes that the cost of renewables is still falling:



Nothing else matches those costs. So what is happening?

At the core of the problem is the price guarantee that the government provides to those developing offshore. To reduce their risk they sell their energy to a U.K. nationalised entity called the Low [Carbon Contracts Company](#). The idea was pretty straightforward. To reduce risk a company could sell its renewable power on a long term contract and so effectively guarantee itself a rate of return on an investment in the North Sea if it could build the installation to budget and keep it running efficiently thereafter.

And now the theory has gone wrong for three reasons. First, inflation on build costs for projects not yet on stream was not properly allowed for.

Second, the contracts did not allow for massive increases in interest costs.

Third, the price has not increased to reflect new market rates.

What has failed then is the contracting process, and not renewables themselves.

Or to put it another way, whilst Sunak stuffs money in the direction of nuclear and carbon -based fuel the financing that permits renewables has mysteriously been ground to a halt for no good reason.

I wonder why that might be?