

<b>Committee</b>	<b>Date</b>
Property Investment Board (with Corporate Asset Sub Committee invited)	19 August 2020
<b>Subject</b> Climate Action Strategy	
<b>Report of</b> The Town Clerk & Chief Executive	
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## Summary

This paper presents Property Investment Board and Corporate Asset Sub Committee with a summary of relevant high-level actions currently being finalised for inclusion in the Climate Action Strategy. The strategy will be submitted for approval by the Policy & Resources Committee in September and the Court of Common Council in October 2020.

## Recommendation

Property Investment Board and Corporate Asset Sub Committee are recommended to:

- i. Note the relevant high-level actions being developed for the Climate Action Strategy, as set out in **Appendices 1, 2 and 3**.

## Main Report

### Background

1. Following discussion of the options for Climate Action at Resource Allocation Sub Committee (RASC) on 9 July 2020, Members requested that the next stage of development of the strategy include:
  - Development of one integrated option which is impactful, affordable and deliverable.
  - Better coherence between how we will achieve net zero carbon emissions and ensure the Square Mile is commercially resilient to extreme weather change.
  - Increased Member consultation and oversight.
2. A critical step is for each Committee whose responsibilities are most impacted to be given the opportunity to feed back on the high-level actions proposed in their area under the integrated option. The actions for achieving net zero relating to Corporate Asset Sub Committee and Property Investment Board are shown at **Appendices 1 and 2**, respectively. A combined set for ensuring our buildings are also more resilient to extreme weather can be found in **Appendix 3**.

## **Current Position**

3. The high-level actions to support the strategy have been developed with the relevant departments and were shared, discussed and shaped by the Chairmen of the relevant committees in July. They are based on external studies that concluded in late June / early July 2020.
4. The development of the Climate Action Strategy is taking place concurrent to the sustainability work conducted by Jones Lang Lasalle (JLL), of which the first phase was presented and accepted at the July meetings of both PIB and CASC. The recommendations are complimentary and subsequent phases of the JLL work will inform the mobilisation plans for both estates referenced in the Climate Action Strategy.
5. The cost envelopes outlined below are thought to be required in addition to any currently held plans or budgets. They are based on initial examination of the actions and are included at this point to indicate order of magnitude. A more precise costing and plan for affordability is being conducted now to look at the exact floorspace and building level detail undergoing planned works over the next 5 years and ensure costs associated with the actions can be met by the Mid-Term Financial Plan. This work will be complete by end of August and be presented within the final submission for decision. Implementation of the actions under the strategy will be subject to the normal processes around business planning and capital allocation.

## **Net Zero Actions**

6. Net zero is defined as a state where after taking action to reduce greenhouse gas emissions, annual residual emissions are cancelled out through offsetting or removed through carbon dioxide removal or emissions removal measures. The Climate Action Strategy will outline a plan for the Corporation to become net zero across its assets and activities. Commitment to the actions outlined below are the required contributions from the IPG and CPG areas in order to make a credible announcement for a net zero target of 2040.
7. There is a good deal of alignment and synergy between the actions and existing strategies and policies. The appendices contain individual actions which largely build upon those plans but accelerate them to fit within a credible net zero announcement for 2040. There may be some, but not significant, savings if just in time delivery to the UK's legal commitment to 2050 was preferred. The actions needed in 2021-2025 to design and begin a 20- or 30-year plan are very similar.
8. It is proposed that any refurbishment work is done within planned voids and works so that no loss of income is incurred, and disruption is minimised. It is proposed that funding for refurbishment follows the current sourcing practices of using the Designated Sales Pool reserves for BHE and City Estate. And arrangements are being made to fund refurbishment for City Fund properties from the centre within the Mid-Term Financial Plan.
9. As approximately 40% of the IPG estate is coming into lease events in the next five years, this represents an inflexion point and opportunity to significantly shape the longer-term value of the portfolio as a corporate asset.

## Resilience Actions

10. Climate resilience is the outcome of implementing adaptation measures to prepare for unavoidable climate change. Actions which advance protect and promote the Square Mile as a resilient, secure and therefore world class business environment will be pursued as part of the Climate Action strategy. Actions which ensure both our IPG and CPG buildings are resilient to extreme weather are outlined below.
11. The actions for resilience are additional from those suggested under Net Zero. But we know that when climate resilience measures are integrated with net zero actions there are co-benefits. For example, by including solar shading to cool a building we can cut down on air conditioning loads and associated carbon emissions. Diversifying energy sources carries the potential to reduce carbon emissions but also makes our commercial centre more resilient during an extreme weather event.
12. Climate resilience needs to be integrated into the City Corporation's decision-making processes in order to reduce the cost of these measures compared with the costs of treating climate resilience in isolation. Much of this integration is low cost and should be progressed immediately. Some of the higher cost high impact items can be phased later than 2025 for affordability. But the proposed actions and funding levels listed below have been designed to include low cost items plus pilot phases for higher cost items. The pilot projects will inform and test return on investment for a longer-term resilience plan that would be phased beyond 2025. This has reduced ability to draw upon external funds in 2021-2025, but opportunities will be explored in detail in the next stage of analysis.
13. This approach puts us on a trajectory consistent with the 'best case weather' assumption<sup>1</sup> which would require the world to align to the 1.5 – 2 degree increase described in the Paris agreement. Should we want to prepare for the worst-case weather scenario – +5 degrees – we would pursue similar actions described below but on a more accelerated time scale.
14. There is also a good deal of alignment and synergy with existing strategies and policies and between the action sets listed below. The set contain individual actions which build upon those plans and the funding is included for those required *in addition* to any currently held plans or budgets.
15. The issue of whether to split the decision and put resilience on a different track was raised at RASC. Leaving out resilience for now would lessen the cost. However, leaving out resilience would also result in a "Net Zero Strategy" rather than a "Climate Action Strategy", and would not represent the best practice we have been championing.

## Discussion points

16. The discussion on the overall budget envelope and decision on the funding for the strategy will remain with RASC, but will be informed by discussion from each of the relevant Committees in order to answer three questions:

1. Impact: are these broadly the right areas for action in your Committee's area of responsibility?
2. Delivery: how confident are you that the activities could be delivered in your area at this stage?
3. Affordability: how could we reduce costs through synergies, cuts or reprioritization? What economies of scale exist between the actions for the IPG and CPG estates?

## **Next Steps**

17. In September 2020, the finalised Climate Action Strategy and high-level action plan will be presented firstly to RASC for consultation, next to each of the relevant committees for information and then to Policy & Resources for decision.
18. If P&R is content, it will be recommended to the Court of Common Council for adoption on 8 October 2020.
19. The strategy will be officially launched at the Green Horizons Summit in early November 2020.

## **Appendices**

1. Summary of Net Zero high-level actions relating to Corporate Asset Sub Committee's responsibilities.
2. Summary of Net Zero high-level actions relating to Property Investment Board's responsibilities.
3. Summary of Resilience high-level actions relating to both Property Investment Board and Corporate Asset Sub Allocation Committee's responsibilities.

## Appendix 1: CPG and Landlord Areas

*~up to 7m per annum 2021-2025 with potential for £2m pa in savings*

### Net Zero Vision

The City Corporation is responsible for some of Central London's most historic, landmark buildings. The net zero future will prepare them for the next one hundred years, reducing emissions and costs, while improving occupant comfort and productivity.

### Summary

Upgrading the owned and operated buildings portfolio extends and accelerates the current Energy Team project pipeline, preparing for major refurbishment through data collection and system optimization and accelerates the upgrade of systems and building fabric.

**Action 1.1** Update building condition surveys

**Action 1.2** Undertake funding sources review

**Action 1.3** Develop energy efficient and low-carbon refurbishment standards

**Action 1.4** Upgrade to LED lighting and associated controls

**Action 1.5** Implement centralised BMS

**Action 1.6** Sub-meter energy consumption

**Action 1.7** Begin installation of heat pumps and deep fabric retrofit schedule

<b><i>Benefits</i></b>	<b><i>Key Assumptions</i></b>
<ul style="list-style-type: none"><li>• Improved indoor comfort</li><li>• Improved occupant satisfaction, increased productivity and employee retention</li><li>• Future-proof CPG estate</li><li>• Tackle fuel poverty for residents</li><li>• Increased building performance data</li><li>• Reduction in long-term property maintenance costs</li><li>• Increased visibility and control on capital spend</li><li>• Green jobs and economic multipliers for green / tech ecosystem</li><li>• Energy savings</li></ul>	<ul style="list-style-type: none"><li>• Mobilisation plan to upgrade CPG estate on 20-year cycle</li><li>• Additional expertise i.e. energy performance in place</li><li>• Major refurbishment to take place alongside cyclical works schedule.</li></ul>

## Appendix 2: IPG Downstream Leased Assets

*~up to 6m per annum 2021-2025 with potential for £2.5m pa in savings*

### Net Zero Vision

The City Corporation is responsible for some of Central London's most historic, landmark buildings. The net zero future will prepare them for the next one hundred years, reducing emissions and costs, while improving tenant satisfaction and long-term valuation.

### Summary

The actions focus on setting up robust systems to plan for the long-term, identify and mitigate risk, enhance value and yield, and undertake capital works to build a more sustainable and therefore commercially attractive property portfolio.

- Action 4.1** Review risks of future relevant regulations and develop a readiness plan<sup>2</sup>
- Action 4.2** Ensure environmental requirements in new acquisition and leases
- Action 4.3** Embed energy efficient and low carbon solutions in refurbishment standards
- Action 4.4** Establish a comprehensive program to monitor energy consumption
- Action 4.5** EPC B upgrade programme for buildings coming off lease with planned refurbishment works between 2020-2025
- Action 4.6** Design and agree operational plan to deliver 60% emission reduction across the IPG estate by 2040 with 5-year incremental performance targets named and yearly reporting on progress against targets

<b>Benefits</b>	<b>Key Assumptions</b>
<ul style="list-style-type: none"><li>•Energy savings</li><li>•Potential increase in property values and yield</li><li>•Increase in tenant satisfaction and reduced void periods</li><li>•Reduction in long-term property maintenance costs</li><li>•Reduction in letting costs</li><li>•Future proof key asset base for Corporation</li><li>•Increased visibility and control on capital spend</li><li>•Green jobs and economic multipliers for green tech ecosystem</li></ul>	<ul style="list-style-type: none"><li>•Centralised energy monitoring through BMS</li><li>•Increased tenant engagement</li><li>•New property data management system in place</li><li>•Mobilisation Plan to be developed to upgrade IPG estate on 20-year cycle</li><li>•Additional expertise ie energy performance, green leasing in place.</li><li>•5-year payback on energy monitoring and 7-year payback on EPC B retrofits<sup>3</sup></li><li>•Major refurbishment to take place alongside planned works and voids schedule.</li></ul>

<sup>2</sup> BEIS have consulted on introducing an EPC=B requirement in non-domestic Private Rental Stock (PRS) from 2030.

<sup>3</sup> PRS regulations are expected to include a 7-year payback cost-effectiveness criteria. This is likely to limit the retrofit requirement across the portfolio. Since retrofits are aligned with lease breaks, savings are assumed to accrue to the City Corporation through renegotiated lease clauses

### Appendix 3: Resilient Buildings

*~up to 2.4m per annum 2021-2025*

**Action 3.1** Embed enhanced resilience measures into upgrade plans for IPG and CPG properties

**Action 3.2** Diversify energy sources and partner with regional organisations and utility providers to increase back-up power for critical services

**Action 3.3** Flood defence assets maintenance and management regimes incorporated into upgrade plans

**Action 3.4** Protect key assets, critical infrastructure and sensitive equipment in flood zones

**Action 3.5** Undertake external funding sources review

<b><i>Benefits</i></b>	<b><i>Key Assumptions</i></b>
<ul style="list-style-type: none"><li>• Indirect effect on green jobs and economic multipliers for green tech ecosystem</li><li>• Positive reputation amongst businesses</li><li>• Catalyse change across UK real estate market</li><li>• Increased visibility and standards across projects</li><li>• Increased performance from capital spend</li><li>• Future proof key asset base for the Corporation</li></ul>	<ul style="list-style-type: none"><li>• Enhanced resilience measures incorporated into 20- year upgrade cycle alongside planned works.</li></ul>