ITEM 15

Report – Policy and Resources Committee

Year 2 Quarter 4 update on Climate Action Strategy & Year 3 Plan

To be presented on Thursday, 25th May 2023

To the Right Honourable The Lord Mayor, Aldermen and Commons of the City of London in Common Council assembled.

SUMMARY

In October 2020, the Court of Common Council approved an ambitious Climate Action Strategy, a transformative programme for the City of London Corporation to reach net zero carbon emissions, build resilience and champion sustainable growth. This paper reports the results of the planned quarter 3 activities of the second year of the programme. It includes a description of progress made as well as potential risks for the programme.

RECOMMENDATION

That Members:

i. Note the progress, risks and issues arising between January and March 2023 of year 2 of implementing the Climate Action Strategy.
ii. Note Policy and Resources Committee's approval of a drawdown of funds for implementation of the Climate Action Strategy in FY23-24 as set out in Table 2 from that original budget envelope. This represents portions for City Fund (£13.46m) and City's Cash (£4.84m).
iii. Note the potential risks to the 2027 target.
iv. Note that the achievement of our targets for Scope 3 and the Square Mile needs continuous and focused attention but no additional resources beyond the original budget envelope.

MAIN REPORT

Background

1. In November 2019 the City Corporation set out on a fast-paced, cross-corporation journey to develop an ambitious Climate Action Strategy (CAS). The strategy was adopted at the Court of Common Council on 8 October 2020.

2. The CAS marked the start of a new and transformative programme of action. It sets out three interlinked primary objectives for the City Corporation and the Square Mile:

- to support the achievement of net zero emissions,
- to build climate resilience, and
- to champion sustainable growth.

3. The Court approved an original funding envelope of £68m to deliver the Strategy up to 2027. Each year's budget was to be subject to confirmation. It was agreed upon adoption that each relevant Service Committee and Policy and Resources Committee receive a quarterly update on progress and relevant expenditure.

4. The Year 2 (Y2) programme of work and associated budget was approved by Policy and Resources Committee on 5th May 2021 for City Fund and City's Cash. Expenditure related to Bridge House Estates (BHE) was approved by the BHE Board in July 2022. Across the funds, a total Y2 budget for both capital and revenue of £18.44m was approved as the allocation required under the original budget envelope.

5. The annual programme of work is based on detailed plans for 13 workstreams across six different departments; each of which reports to a relevant Service Committee. These detailed plans are approved by Project Boards at the operational level and relevant Service Committees at a Member level. These are reported into Policy and Resources as a summary delivery programme as shown in Appendix 2 for Year 3. Policy and Resources Committee also approves annual budget drawdown against the original envelope for City's Cash and City Fund.

6. BHE funds are approved by the BHE Board but are shown here for illustrative purposes and for demonstrating combined commitment between BHE and the City Corporation. The decisions relevant to BHE will be taken through their independent governance arrangements.

7. For the initial years, City's Cash and City Fund drawdowns are from central reserves. In later years the annual budgets will be partly funded by savings to the energy bill. A revolving mechanism to capture financial savings from the corporate energy bill was planned. It will capture the savings from the capital interventions under CAS and the PSDS project. The current assessment and design of the revolving fund's value is still underway and is complicated by market volatility in energy prices and internal charge back arrangements. Therefore the value stands at £0 even though savings have started to come online.

8. In July 2021, Policy and Resources Committee approved delegated authority powers in relation to project delivery to the Senior Responsible Officer of CAS. This authority continues to bring the desired momentum to the programme.

Progress against targets

9. Quarters 1&2 focused on increasing transparency on progress against targets. We accomplished this through:

- Re-assessing the carbon footprint for the first time since the baseline year of 2018/19.
- Publishing the first Taking Climate Action: Our Progress 2022 (cityoflondon.gov.uk) report on progress against targets.
- Being the first body with local authority powers to publish a fully transparent public dashboard tracking performance against all CAS areas of work.
- Being the first body with local authority powers to have a carbon footprint externally audited and verified for all three emission Scopes.

10. The interim target for Scopes 1&2 in 2021/22 is 33% decrease on the baseline of 2018/2019. We have reduced carbon emissions by 31%. This can be explained by a slower-than-expected rate of decarbonisation of the national power grid.

11. Emissions in our value chain have decreased by 5.6% since our baseline year. A small decrease was expected. This is due to increased expenditure on goods and services and increased value of our investment portfolios, as well as improvements in measurement.

12. In the Square Mile almost all of the emissions come from transport and buildings. In the latest available emissions data for the Square Mile (2019), commercial buildings were reduced by 16% and transport-related emissions were reduced by 11% compared to 2017. However, these fall short of the required trajectories to meet our interim targets for the Square Mile of 60% emission reduction by 2025 and 73% by 2030.

13. These areas are being monitored and robust action plans are in place to get back on track. For example, a Supplementary Planning Guidance document for planning applications is being developed, as well as net zero design and technology standards for our own buildings. These will raise standards for new builds and refurbishments. The City Corporation will also continue to implement its pedestrian priority scheme and cycle lanes to promote sustainable forms of transport.

14. As part of the Year 3 plan, it is intended to repeat a comprehensive emission accounting exercise across all three scopes and the Square Mile. Additionally, to re-evaluate current progress against our Net Zero targets trajectories while auditing our Scopes 1 and 2.

15. All progress against targets can be monitored through the Climate Action Dashboard. The dashboard tracks 31 management KPIs as well as the main 21 reporting KPI of our footprint as expressed in tonnes of CO_2e (Carbon Dioxide Equivalent). We are evaluating an additional 10 management KPIs to further improve the ability to evaluate overall progress on CAS targets. This dashboard is used as the basis for progress reporting to Committees.

Progress against delivery plans

16. The following chart summarises the delivery status of the 13 workstreams delivering Climate Action against the original Y2 plans:

Workstream	**Status** (Q3)	**Status** (Q4)
Strategic Implementation Support	Green	Green
Buildings - Corporate Properties and Housing	Red	Red
Buildings - Investment Properties	Amber	Amber
Buildings - Capital Projects (Standards) + Resilience	Amber	Green
Purchased Goods and Services	Red	Amber
Square Mile	Amber	Amber
Cool Streets and Greening	Amber	Amber
Mainstreaming Resilience	Amber	Green
Heart of the City and SME Engagement	Green	Amber
Financial Investments	Amber	Amber
Carbon Removals and Land Management	Red	Red
Transport	Amber	Amber

17. Green-rated workstreams are all on track in terms of actions originally planned for Y2.

18. Those marked amber are those where there are one or more actions which will happen later in the programme than anticipated.

19. Those marked red have actions that were meant to be initiated in Y2 and have not yet started.

20. The red, amber and green ratings denote progress to planned activities made at the start of the financial year. It does not denote progress to CAS goals and targets.

21. Workstreams that are marked as Amber or Red receive heightened monitoring at the operational level. Service areas are being supported to increase momentum with special emphasis on actions relating to 2027 targets.

22. Red Projects

- **Carbon Removals and Land Management** is currently undergoing a rescoping of the project by Arcadis consultants. This is due to the arising concerns over the existing sequestration capacity highlighted by recent extreme weather events and the potential to enhance sequestration. A separate report is being prepared for the Senior Accountable Officer's consideration in Q1.
- **Buildings - Corporate Properties and Landlord Housing Areas** remains with a red rating due to significant delays.

Although the majority of workstreams are moving forward, the large capital works scheduled for Year 2 have not started and must now fall into financial year 2023/24.

23. There are several delays in the production of analytical work or key actions needed to underpin the success of the strategy. These are summarised in appendix 3. Additional Member and operational oversight will be needed to accelerate action along the new schedules.

Change Control

24. No changes in timing, scope, or budget are required for Member decision at this time.

Financial Update

25. The tables below summarise the financial position of the revenue and capital elements of the programme as of 28th February 2023 for year 2 and proposed draw down for Year 3.

26. The differences between the budget envelope requested and the amount drawn in Year 2 are due to several reasons. For revenue, these are 1) unrealised or delayed actions which will now take place in Year 3; 2) reassessment of plans based on continuous learning; 3) incomplete financial report and the delayed transactions processes. For capital, this is largely due to 1) delays in the production of portfolio-level management plans 2) delays in procuring expertise and 3) delays in procuring contractors. This means that some of the capital spend intended for Y2 is now reflected in Y3 projections.

27. The delays in spending due to internal processes have been highlighted at the operational level and were a recent topic at Executive Leadership Board where all Chief Officers pledged support to keep these moving. While solutions can be found at the operational level it is important for Members to understand that there are factors which threaten achievement of the 2027 target which are in our organisational control to mitigate. This will become especially acute in Y3 of implementation. In the main these include:

    a. Delays of up to three months in issuing capital codes for approved projects
    b. Delays of 2+ weeks in response times for review of gateway and committee reports for actions related to 2027 targets
    c. No scaling of expectations of insurance levels for smaller firms or smaller contracts and delays in response time for required exceptions.
    d. Distraction operationally and politically of non-CAS capital projects stating CAS alignment or targets where it is not the case.

Table 1								
YEAR 2	**Original Budget (£k)**				**Actual Spend (£k)***			
Fund	**BHE**	**CC**	**CF**	**Total**	**BHE**	**CC**	**CF**	**Total**
Capital + SRP	99	1,598	9,860	11,577	0	27	686	713
Revenue	442	2,361	4,077	6,881	332	1,200	2,181	3,713
Grand Total	541	3,959	13,938	**18,438**	332	1,227	2,867	**4,426**

*as of 30/03/2023

Table 2								
YEAR 3	**Original Budget (£k)**				**Actual Spend (£k)**			
Fund	**BHE**	**CC**	**CF**	**Total**	**BHE**	**CC**	**CF**	**Total**
Capital + SRP	878	3,343	9,822	14,043	£0	£0	£0	£0
Revenue	368	1,492	3,640	5,500	£0	£0	£0	£0
Grand Total	1,246	4,835	13,462	**19,543**	£0	£0	£0	£0

28. Due to significant budget underspends of some of the projects, project leads were required to redesign their yearly spends for the financial year 2022/23. This resulted in some of the budgets being reassigned to Year 3. Table 3 (see Appendix 5) compares the original budget allocation including revenue and capital per project to actual year 2 spend. Table 4 below sets out estimated spend per CAS project in year 3.

Table 4				
Project Name	**Budget Allocation (Year 3)**	**BHE**	**CC**	**CF**
Strategy Implementation Support	£954,000	£57,240	£257,580	£639,180
Corporate Property Group Buildings	£5,108,715	£0	£1,532,614	£3,576,100
Investment Property Group Buildings	£5,214,000	£938,520	£2,398,440	£1,877,040
Design Standards	£310,000	£55,800	£142,600	£111,600
Resilient Buildings	£760,000	£136,800	£349,600	£273,600
Carbon Removals	TBC	TBC	TBC	TBC
Cool Streets and Greening	£3,841,736	£0	£0	£3,841,736
Financial Investments	£140,000	£46,200	£46,200	£47,600
Heart of the City & SMEs	£200,000	£0	£0	£200,000
Mainstreaming Resilience	£330,000*	£0	£0	£330,000
Purchased goods and Services	£240,000	£12,000	£108,000	£120,000
Square Mile	£785,000	£0	£0	£785,000

Transport	£1,660,000	£0	£0	£1,660,000
TOTAL	**£19,543,451**	**£1,246,560**	**£4,835,034**	**£13,461,856**

Risk

29. The Corporate Climate Action Risk Register describes the organisational response to climate change and focuses on areas within our control and their mitigations. These risks were last reviewed by the Executive Leadership Board on 15h March 2023.

30. A programme-level risk log is also kept. All risks marked high this quarter and last are represented in Appendix 1. A summary of the most pressing delivery risks are below. Three are internal and therefore easier to mitigate and three are exogenous.

31. The three external risks are:
    a. Talent acquisition retention in a buoyant market for sustainability. This is complicated by our internal recruitment processes and response times.
    b. Recent unprecedented rises in energy prices and
    c. the cost of capital works present a significant risk to CAS target delivery.

32. There are three main internal risks:
    a. Underfunded cyclical works in our corporate estate which relate to energy. A paper going to OPPSC for 17th April 2023 clearly identifies £18.5m worth of projects which are to be completed before 2027. A total of £5.9m of this is backlog or deferred maintenance. The remainder is in year projects. Both are needed to improve and reinforce climate action interventions for overall emissions reduction across the estate.
    b. Decision timelines on planned stock changes continues to be a potential risk for the programme. Major projects such as the Guildhall Master Plan, Barbican Arts Centre and Markets Co-location must now be considered inside the portfolio for purposes of planning to achieve the 2027 target. Furthermore, a lack of visible and well understood corporate disposal and portfolio acquisition strategies does limit the ability to have certainty over the 2027 target. It also hampers effective CAS delivery planning. The same is true for the investment estate for the 2040 goal.
    c. A financial mechanism to ringfence energy savings is not yet in place as explained above.

Corporate and strategic implications

33. Strategic implications: The CAS supports the delivery against the following outcomes in the Corporate Plan, 2018-23:
    a. Outcome 1: People are safe and feel safe
    b. Outcome 5: Businesses are trusted and socially and

environmentally responsible

c. Outcome 7: We are a global hub for innovation in financial and professional services, commerce and culture
d. Outcome 10: We inspire enterprise, excellence, creativity and collaboration
e. Outcome 11: We have clean air, land and water and a thriving and sustainable natural environment
f. Outcome 12: Our spaces are secure, resilient and well-maintained.

34. The strategy builds upon existing strategies and policies, including: The Responsible Business Strategy 2018-23, the Responsible Investment Policy, the City Procurement Strategy 2020-24, the Local Plan 2015, the draft City Plan 2036, the Transport Strategy 2018-43, the Air Quality Strategy 2015-20, the Climate Mitigation Strategy, the Local Flood Risk Management Strategy 2021-27, the Transition to a Zero Emission Fleet Policy, the Renewable Electricity Policy & Sourcing Strategy and related campaigns, such as Plastic Free City. It is aligned with ongoing reviews of our financial and property investment portfolio.

35. Risk Implications – To manage risk effectively in the programme, all projects have a risk register and the overall risks are controlled through a corporation-level risk CR30 – Climate Action Strategy. No new corporate-level risks have been added since the Policy and Resources CAS update on 5th May 2022.

36. Equalities Implications – A Test of Relevance was undertaken on the Climate Action Strategy and several positive impacts were identified for people in at least one of the following five protected groups - age, disability, race, pregnancy/maternity and gender. These include a reduction in air pollution, physical public realm improvements and increased indoor comfort levels and a reduction of fuel poverty. No negative impacts were identified. A review of the findings from the initial Test of Relevance was conducted at half year and they remain the same. Impacts will be investigated and assessed on an ongoing basis in conjunction with the delivery of the CAS programme of work.

Conclusion

37. In conclusion, the City Corporation remains on track to deliver its targets for Scopes 1&2 and resilience evidenced by a recent (independently verified) carbon footprint reassessment. However, the upcoming year is critical to delivery and mitigation of internal risks. Scope 3 emissions and those for the Square Mile require more focused attention but with robust plans in place to ensure we meet our goals.

Appendices

Appendix 1 CAS Programme Risk Register
Appendix 2 Achievements from Year 2
Appendix 3 CAS Year 3 Programme Highlights
Appendix 4 CAS Delayed Workstreams

Appendix 5 Year 2 budget spend analysis

All of which we submit to the judgement of this Honourable Court.

DATED this 20th day of April 2023.

SIGNED on behalf of the Committee.

Deputy Christopher Michael Hayward
Chairman, Policy and Resources Committee