

Committee	Date
Finance Committee	17/11/2024
Subject: Climate Action Strategy Finance update to end of Year 4 (2024/2025) Quarter 2	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	Leading Sustainable Environment, Vibrant Thriving Destination, Flourishing Public Spaces, Providing Excellent Services
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	N/A
What is the source of Funding?	<i>Original budget envelope for CAS approved by Court upon adoption. Year 4 portion approved by Policy and Resources on 11 April 2024 & by CBF Board on 10 July 2024.</i>
Has this Funding Source been agreed with the Chamberlain's Department?	Yes
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Report author: Kate Neale, Programme Director, Climate Action	

Summary

In October 2020, the Court of Common Council approved an ambitious Climate Action Strategy (CAS). The Strategy commits the organisation to achieving net zero carbon emissions in its own operations by 2027 and its full value chain by 2040. As well as supporting the whole Square Mile to reach net zero by 2040, and building climate resilience into our buildings, public spaces and infrastructure.

CAS has a £68m budget for implementation from April 2021 through to March 2027. Just under half of the revenue budget and 10% of the capital budget has been spent to March 2024, with the remainder expected to be spent in the next two years. Continued focus is needed on speedy financial scoping and approvals, for work to be delivered as needed.

Progress against targets to the end of Year 3 (2023/24) shows we are not on track to meet net zero for our own operations in 2027. This is due to a range of external and internal factors – including lack of national grid decarbonisation and delays to Corporation major projects. Mitigating actions are underway and should bring us back on track.

We are still on track to meet net zero for our full value chain in 2040, supporting the Square Mile to reach net zero by 2040, and building resilience in our buildings and public spaces.

The CAS is delivering long term value to the Corporation, and has already enabled £1.7m of avoided costs. Tracking actual savings to the energy bill, a revolving financial mechanism has been created to capture £565k, ringfenced for reinvestment.

Recommendations

Members are asked to note the report.

Main Report

Background

1. Starting in November 2024, the Climate Action Strategy will provide twice yearly updates to the Finance Committee on expenditure and achievements against the programme budget.
2. The City Corporation's ambitious CAS was adopted at Court of Common Council on the 8 October 2020 and became operational in April 2021.
3. The CAS marked the start of a new and transformative programme of action. It set out three interlinked primary objectives for the City Corporation and the Square Mile:
 - to support the achievement of net zero emissions,
 - to build resilience, and
 - to champion sustainable growth.
4. These objectives were tied to ambitious timescales and the City Corporation committed to 4 targets:
 - Achieve net zero in own operations (scopes 1 & 2) by 2027
 - Achieve net zero across the Corporation's full value chain (scopes 1, 2 & 3) by 2040
 - Support net zero in the Square Mile by 2040
 - Build climate resilience in our buildings, public spaces and infrastructure.
5. The Policy and Resources Committee approved an original funding envelope of £68m to deliver the Strategy up to 2027.
6. The annual programme of work is based on detailed plans for 13 projects. These annual plans are approved by Project Boards at operational level, with oversight by relevant Service Committees at Member level. These are reported into Policy and Resources as a summary programme.
7. Policy and Resources approves annual budget drawdown against the original envelope for City Fund and City's Estate. The Year 4 (Y4) programme of work and associated budget was approved by Policy and Resources on 11 April 2024 for City Fund and City's Estate. Expenditure related to City Bridge Foundation (CBF) was approved by the CBF Board on 10 July 2024. Across all funds, a total Y4 budget for both capital and revenue of £22.9m was approved under the

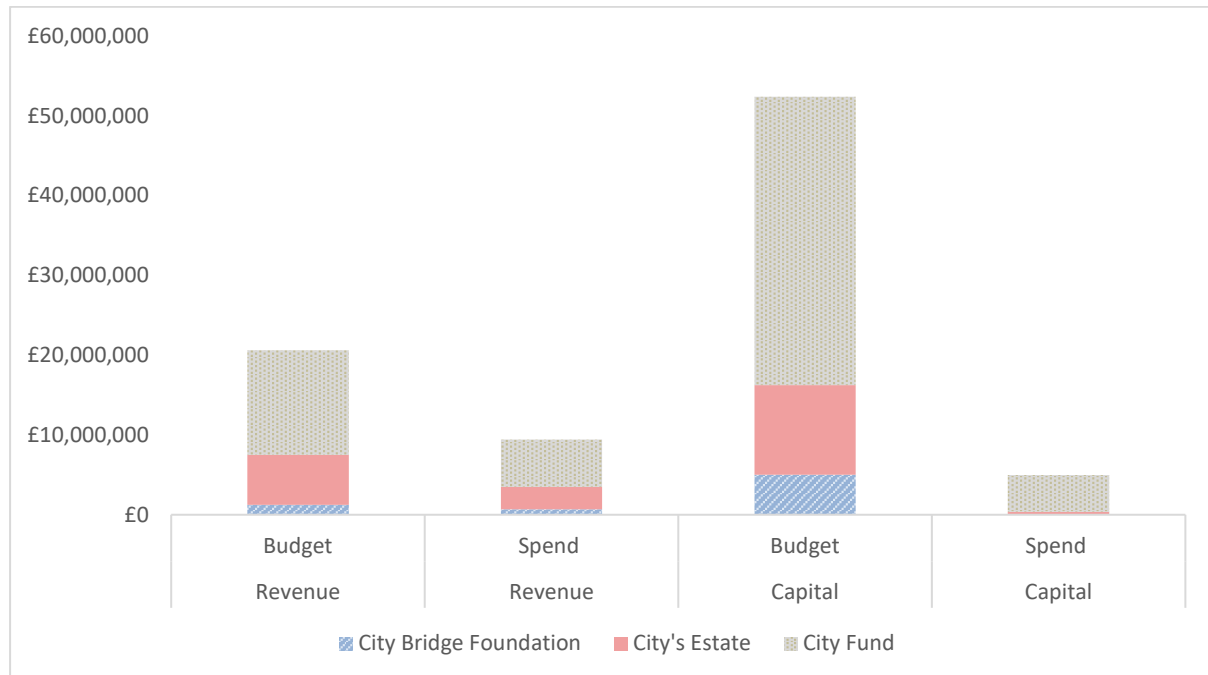
original budget envelope.

8. CBF funds are approved by the CBF Board but are shown here for illustrative purposes, and for demonstrating combined commitment between CBF and the City Corporation. The decisions relevant to CBF are taken through their independent governance arrangements.
9. For the initial years, City Fund and City's Estate drawdowns are from central reserves. In later years towards 2027, annual budgets are partly funded by savings to the Corporation's energy bill. A revolving mechanism is in place, capturing savings from the capital interventions from CAS projects, detailed in paragraph 21.
10. In July 2021, Policy and Resources approved the following delegated authority powers in relation to project delivery to the Senior Responsible Officer of CAS:
 - Review and approval of capital expenditure up to £1m, outside of the usual Project Procedure (i.e. gateway reporting)
 - Approval of revenue expenditure from the approved Climate Action budget.

Financial Update

11. Figure 1 summarises the financial position of the CAS from inception to March 2024 (Years 1 – 3), split by capital and revenue, and by Fund. This is presented alongside the total programme (April 2021-March 2027, Years 1 – 6) budget. More detail can be found in Appendix 1.

Figure 1: Total programme budget, and spend to March 2024, split by capital and revenue, and by Fund



12. Just under half of the programme's revenue budget was spent to the end of Year 3, aligning with the CAS being at the halfway point in delivery. However only 10% of the total capital budget for the programme was spent by this point,

largely due to:

- a) Grant funding supporting early delivery of emissions reduction actions (such as the Public Sector Decarbonisation Scheme);
- b) Early years of the Strategy focusing more on surveys and audits, in order to deploy capital works later in the programme; and
- c) Delays in appointing sufficient resource to manage and deliver capital works – which have now been resolved.

13. The remaining programme budget is expected to be spent in Years 4-6 (April 2024 to March 2027), deploying the capital works scoped and required to meet net zero and resilience targets. Works supporting the 2027 net zero target will be prioritised and capital budget will be reallocated across projects to ensure best use of funds and return on investment. No additional funds are sought.
14. The Year 4 budget totals £22.9m. Figures 2 and 3 set out the Year 4 budget and spend, split by revenue and capital, and by project. Actual spend is correct to 3 September 2024. More detail can be found in Appendix 2.

Figure 2: Year 4 revenue budget and spend per project to 3 September 2024

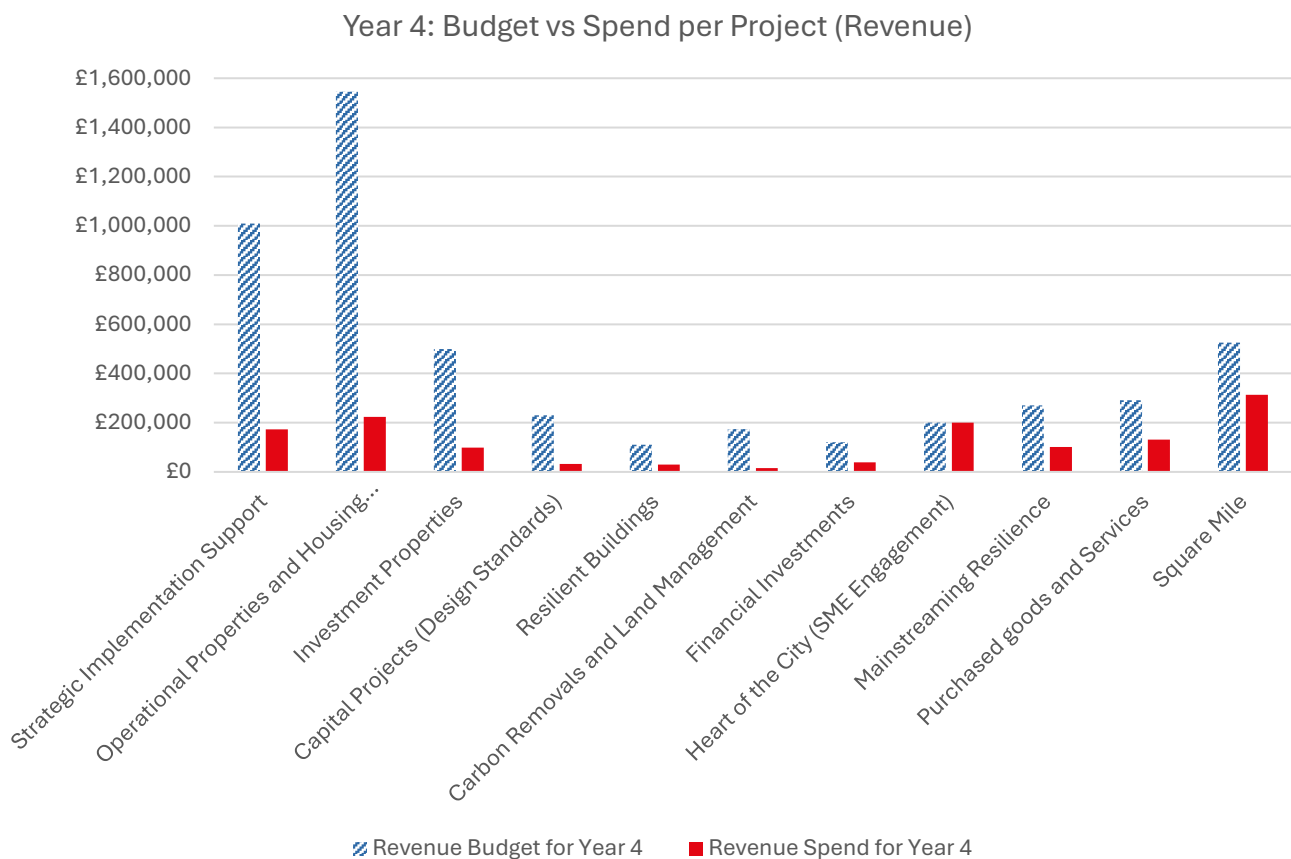
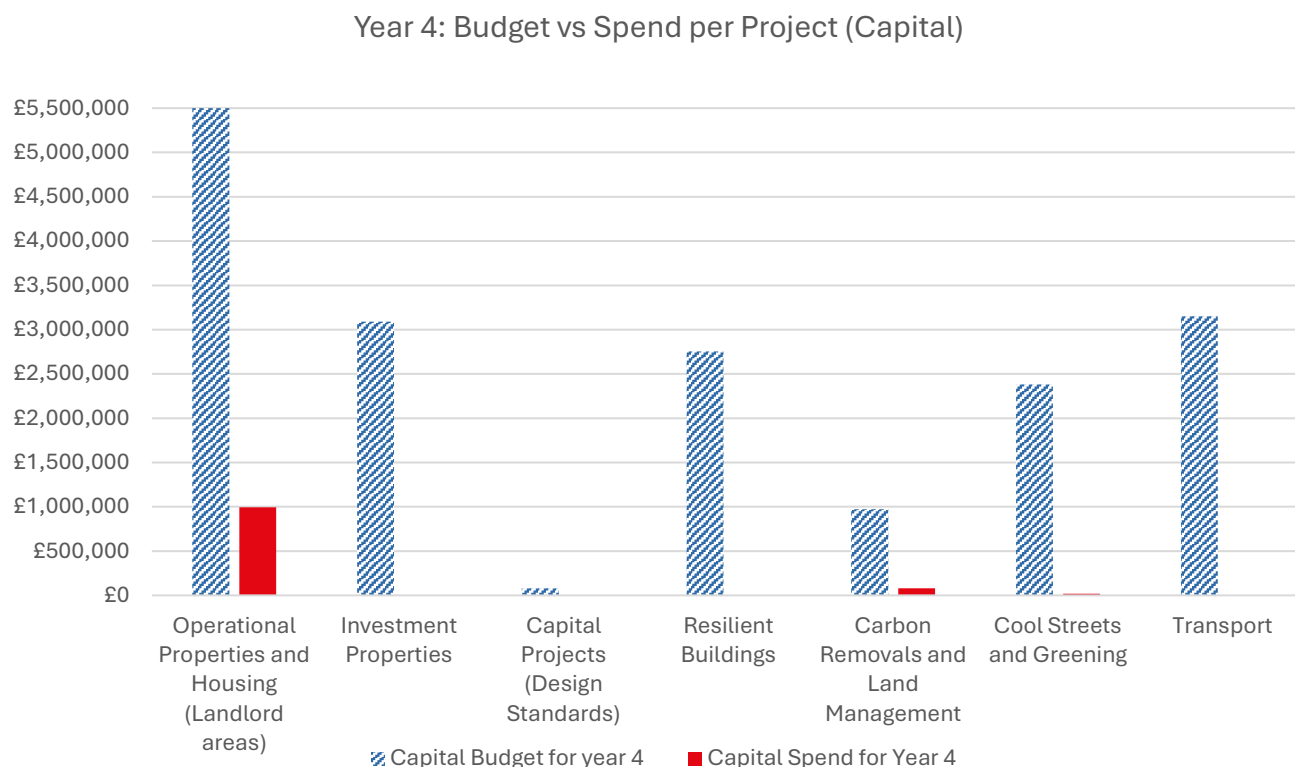


Figure 3: Year 4 capital budget and spend per project to 3 September 2024



15. Year 4 has significant spend planned across the Programme, but only 11% delivered to September 2024. A further circa £2.2m (10%) has been approved by the SRO for spend in Year 4 (within the budget) but has not yet been delivered. Remaining spend will be in Quarters 3 and 4 where appropriate. Continued focus is needed on speedy scoping and approvals, for work to be delivered as needed.

Strategic Progress and Long-Term Value

16. The public [Climate Action Dashboard](#) provides a comprehensive view of CAS progress, reporting on 62 KPIs detailing progress in all areas of the Strategy. This was last updated on 17 October.

17. Carbon and resilience performance to the end of Year 2 (2022/23) met targets and we were on track to meet net zero in 2027 and 2040 whilst underbudget.

18. The following sets out progress to the end of Year 3 (2023/24) against the baseline, unless otherwise stated.

Target: Achieve net zero in own operations by 2027

19. In 2023/24, we achieved a 65% reduction in net emissions against the 2018/19 baseline, missing the 84% interim target by 19%. The shortfall was largely due to the increased carbon factor of the National Grid, driven by geopolitical factors. Furthermore, major projects like Guildhall refurbishment and Barbican Renewal, are delaying the savings originally expected between 2024-2027, and preventing

investment in the meantime. Mitigating actions are underway and should bring us back on track, but the risk of not meeting the 2027 target remains high and continued urgency is needed.

20. Despite this, the Operational Portfolio has seen 35,313,000 kWh energy savings since 2021.

21. We've identified £565k in energy bill savings, to sit in the revolving financial mechanism. This will be re-invested in operational energy efficiency capital works to deliver CAS targets.

22. Financial savings from the energy bill are lower than originally forecasted in 2021 due to rising energy prices. However, energy efficiency measures have secured £1.7m in avoided energy costs over the last two years, at a cost of £3.8m to the Corporation – meaning a payback of 4.5 years. Note that avoided costs will increase as energy prices increase.

Target: Achieve net zero across the Corporation's full value chain by 2040

23. In 2023/24 we achieved a 19% reduction against the 2018/19 baseline. The first interim target is a reduction of 26% by 2024/25 against the baseline.

24. The largest contributor to the Corporation's value chain carbon footprint is emissions from our financial investments. Since the baseline, this category has achieved a reduction of 82,628 tCO_{2e}, with all funds demonstrating clear emission reductions, whilst maintaining returns required.

Target: Support net zero in the Square Mile by 2040

25. The latest data (2021) shows a 35% reduction against the 2017 baseline. The first interim target is a reduction of 60% by 2025 against the baseline.

26. In 2023 we published our Carbon Options Guidance Planning Advice Note, requiring developers to explore Whole Lifecycle carbon emissions of development options. Since 2021, we've been working collaboratively with developers on low-carbon design solutions, including retrofitting, and have seen a 46% increase in retrofit major planning applications. With the formal adoption of the Carbon Options Guidance, we expect this positive trend to accelerate.

Target: Build climate resilience

27. The Corporation is continuing to prepare buildings, infrastructure and open spaces for warmer, wetter winters and hotter, drier summers, responding to six key climate-related risks likely to affect the Square Mile:

- Flooding
- Overheating
- Water stress
- Biodiversity loss
- Pests and diseases
- Trade, food and infrastructure

28. Streets with greening have been recorded with temperatures up to 6°C cooler than streets without greening – providing the first evidence that this approach is delivering the heat resilience intended.

Risk

29. The Corporate Climate Action Risk Register describes our organisational response to climate change and focuses on areas within our control and their mitigations. These risks were last reviewed by the Audit and Risk Management Committee on 8 July 2024, when the risk score for CR30 Climate Action increased from Amber 8 (impact major 4 x likelihood unlikely 2) to Amber 12 (impact major 4 x likelihood possible 3) to reflect the increased risk of not hitting 2027 net zero goal.
30. A programme level risk log is also updated regularly. The most pressing delivery risks include:
- a) Delays in investment in energy efficiency works due to uncertainty over the future of major projects in corporate assets (e.g. Guildhall refurbishment).
 - b) Slower than forecast National Grid decarbonisation meaning additional efficiency works will be required to meet net zero in 2027.
 - c) Slow pace of delivery to scope, procure, approve and deliver sufficient works, in time to realise energy savings in time for 2027 target deadline.

Corporate and Strategic Implications

31. Strategic implications – The CAS supports delivery against four outcomes in the Corporate Plan 2024-29:
- Leading Sustainable Environment
 - Vibrant Thriving Destination
 - Flourishing Public Spaces
 - Providing Excellent Services
32. The CAS builds upon existing strategies and policies, including: The Responsible Business Strategy 2018-23, the City Procurement Strategy 2020-24, the Local Plan 2015 (and draft City Plan 2040), the Transport Strategy 2018-44, the Air Quality Strategy 2019-24 (and draft 2025-30 Strategy), the Local Flood Risk Management Strategy 2021-27, the Biodiversity Action Plan 2021-26, the Responsible Investment Policy, 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 to ongoing reviews of our financial and property investment portfolio.
33. Risk Implications – To manage the Strategy risk effectively, 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 8 July 2024.
34. Equalities Implications – A Test of Relevance was undertaken on the CAS and several positive impacts were identified for 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 lower fuel poverty. No negative impacts were identified. A mid-year review of the initial Test of Relevance findings was conducted, confirming that the results

remain unchanged. Impacts will be investigated and assessed on an ongoing basis in conjunction with the delivery of the CAS programme of work.

35. Climate Implications - Whilst the CAS focuses on reducing climate risk, the lack of sufficient progress to the 2027 net zero target is a new climate implication.

36. No resourcing, legal, or security implications.

Conclusion

37. Despite a significant underspend on the CAS programme to date, substantial progress has been made against targets and delivered long term value to the Corporation. The underspend to date has left us in a strong financial position to recover from exogenous factors and deliver additional works within the same budget envelope, in order to meet net zero in 2027.

Appendices

- Appendix 1 – Financial Analysis Years 1-3
- Appendix 2 – Financial Analysis Year 4

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