



Neil Garratt AM
Chairman of the Budget and Performance Committee

Sadiq Khan
Mayor of London
(Sent by email)

14 March 2024

Dear Mr Mayor

Re: Climate Budgeting and Green Finance Fund

I am writing to you on behalf of the Budget and Performance Committee, following our meeting on climate budgeting last year. During the meeting, we had the benefit of engaging with representatives from the GLA, Oslo's Climate Agency, and the Director of the University of Manchester's Tyndall Centre for Climate Change Research. Our discussions were primarily centred around two key areas: Evaluating progress on the GLA's climate budget and examining the progress of the Green Finance Fund. We would like to express our appreciation for the contribution made by the officers of the GLA.

In this letter, the Committee puts forward five recommendations, addressing key areas intended to advance London's efforts toward decarbonisation and achieving the 2030 net-zero goal. Additionally, there are recommendations in this letter aimed at enhancing transparency and accountability for future budgets.

Climate Budgeting

Complexity of Scope 3 carbon emissions

In your budget guidance for the 2024-25 fiscal year, you provided details about the upcoming phases of the GLA's climate budgeting. According to the guidance, the 2024-25 climate budget would incorporate London-wide carbon emissions reporting (Scope 1 - being Greenhouse Gas (GHG) emissions that physically occur in London and Scope 2 - being primarily related to GHG emissions associated with the consumption in London of grid-supplied electricity, which may or may not be generated within London).¹ In the 2025-26 budget the scope will expand to encompass Scope 3 emissions (*Emissions that occur outside London but driven by activities in London e.g., food grown elsewhere but eaten in London*).² The Committee examined some of the complexities associated with these next phases, particularly concerning the integration of Scope 3 emissions.

¹ https://www.london.gov.uk/sites/default/files/mayors_budget_guidance_2023-24.pdf (p26)

² https://www.london.gov.uk/sites/default/files/mayors_budget_guidance_2023-24.pdf (p26)

Prof. Carly McLachlan, Director of the Tyndall Centre highlighted some of the challenges that exist for organisations integrating Scope 3 emissions into carbon or climate budgets. These included:³

- **Current accounting method is inadequate** - The accounting method for tracking carbon emissions is challenging to adjust because it primarily focuses on spending in various categories and assigns a carbon value for each pound spent. If you spend the same amount of money but in a more sustainable manner, the existing method does not effectively capture this change.
- **Measuring Short-Term vs. Long-Term Impact** - In the long run, if the entire sector undergoes decarbonisation, the emissions factor for that category will decrease significantly. However, the immediate focus is on reallocating spending from one category to another, emphasising short-term shifts rather than long-term environmental effects.

To address some of the issues around capturing Scope 3 emissions Prof. McLachlan suggested: *“To do the carbon account, look at where you can make a difference and devise policy on that basis, but at that point, set yourself metrics and targets that are things you can control and see the difference in.”*⁴

Heidi Sørensen, Head of Oslo’s Climate Agency, shared with the Committee that whilst Oslo adopted climate budgeting in 2017 it has only recently incorporated Scope 3 emissions into its climate budgeting, starting in 2023. She also emphasised that Scope 3 emissions are challenging to quantify accurately compared to direct emissions. Heidi reflected that:

*“It is important that we find a good way to deal with the Scope 3 emissions because we have a lot of them [in Oslo]. Most of the things that we consume are produced outside the city. If we can find a good way of talking about Scope 3, without mixing too much with the Scope 1 emissions that we are entitled to bring down - that is a trend I see in many cities, that they are struggling with these Scope 3 emissions.”*⁵

With regards to expanding climate budgets to include Scope 3 emissions Catherine Barber, the GLA’s Assistant Director for the Environment and Energy, said to the Committee that:

*“We do have a basis of work there, it is not that we have never thought about our supply chain or the onward use of things we produce. There is some ground there and we would need to build on that as we get to 2024/25. For this year, we have already expanded a bit and we are absorbing that, and we are getting the GLA group to think about adaptation, so that is the first step.”*⁶

The Committee notes the challenges around carbon emission reporting discussed during the session and is not confident that the GLA yet has the necessary tools to adopt Scope 3 emissions in climate budgeting by 2025-26.

The GLA has recognised this challenge. During a subsequent Budget and Performance Committee session with GLA Interim Chief Finance Officer Enver Enver in December 2023, he updated the Committee, stating: *“It is probably a bit too ambitious to get to Scope 3, at least within the next two or three years. We will take stock*

³ [London Assembly Budget and Performance Committee - 21 September 2023 \(p19\)](#)

⁴ [London Assembly Budget and Performance Committee - 21 September 2023 \(p19\)](#)

⁵ [London Assembly Budget and Performance Committee - 21 September 2023 \(p12\)](#)

⁶ [London Assembly Budget and Performance Committee - 21 September 2023 \(p20\)](#)

each year and update the Committee".⁷ A letter to the Committee from your Chief of Staff on 22 December 2023 stated:

*"The GLA Group has moved very quickly with the climate budget process so far and there is a good argument now for spending some time refining, improving and further "bedding-in" our existing climate budget processes, before moving on to an even more ambitious regime. Taking time to reflect and bed in processes before expanding the scope is in line with the approach the city of Oslo has taken. Oslo only included Scope 3 emissions in their climate budget this year, in their seventh climate budget, after many years of refining and improving their processes. As Professor McLachlan outlined to the Committee, expanding to Scope 3 emissions is not straight forward and that the GLA will need to take the time to work out the best way to do this. Once this 2024-25 climate budget has been approved, the GLA will explore the options for including Scope 3 and consult with the functional bodies, and external experts if needed, as to how and when the climate budget can be expanded to Scope 3 emissions in a meaningful and practical way."*⁸

Recommendation 1

The Mayor should update the Committee at the start of the 2025-26 budget process to clarify the effective incorporation of Scope 3 emissions into climate budgeting across the GLA family.

Effectiveness of off-setting arrangements

Catherine Barber, GLA Assistant Director, Environment and Energy, shared with the Committee the work that the GLA has done with Element Energy (a specialist energy consultancy) into the pathways to net zero by 2023. Catherine highlighted that:

*"The Element Energy report that was published at the start of last year [2022], which analysed the different pathways that London could take to reach net zero by 2030. That talks about 78 per cent emission reductions by 2030, at that point still needing some form of offsetting."*⁹ She further added that: *"if we [GLA] do absolutely everything and you are totally successful with everything that you think is possible at the moment then at least 22 per cent of residual carbon emissions would remain after 2030 and would therefore require some carbon offsetting."*¹⁰

During the Committee's meeting with climate experts, we heard about some of the challenges organisations may face in reaching their own carbon emission target using the tool of carbon offsetting. Prof. McLachlan reflected that: *"One of the challenges is that the shift to net zero has led people, especially commercial organisations, to aim for immediate net zero using offsets, without transforming production systems. This has caused a spike in offset markets."*¹¹

In 2022, the GLA published Carbon Offset Funds Guidance, primarily aimed at local authorities, which provides instructions on establishing carbon offset funds and outlining potential expenditure.¹² However, the

⁷ P 19, London Assembly Budget and Performance Committee - 13 December 2023

Transcript of Agenda Item 3 - The 2024-25 GLA Group Budget

⁸ [GLA Letter Template \(london.gov.uk\)](https://www.london.gov.uk/sites/default/files/gla_letter_template_2023.pdf)

⁹ [London Assembly Budget and Performance Committee - 21 September 2023 \(p20\)](https://www.london.gov.uk/sites/default/files/london_assembly_budget_and_performance_committee_-_21_september_2023_p20.pdf)

¹⁰ [London Assembly Budget and Performance Committee - 21 September 2023 \(p20\)](https://www.london.gov.uk/sites/default/files/london_assembly_budget_and_performance_committee_-_21_september_2023_p20.pdf)

¹¹ [London Assembly Budget and Performance Committee - 21 September 2023 \(p15\)](https://www.london.gov.uk/sites/default/files/london_assembly_budget_and_performance_committee_-_21_september_2023_p15.pdf)

¹² https://www.london.gov.uk/sites/default/files/gla_carbon_offsetting_guidance_2022.pdf

guidance does not include explicit criteria defining best practice for carbon offsetting. This gap in criteria may pose a risk, potentially undermining the effectiveness of offsetting efforts, particularly in addressing residual emissions.

Recommendation 2

The GLA should be clear about where it uses carbon offsetting. It should develop a strategic approach to the use of carbon offsetting that considers the limits of its effectiveness. As part of this, it should update the GLA's 2022 Carbon Offset Funds Guidance to include explicit criteria and set out best practice for carbon offsetting.

Procurement policy and carbon emission reductions:

Heidi Sørensen identified procurement as “one of the most important tools”¹³ that the city of Oslo has been using in their climate budget. She further added that:

“We had common tender criteria saying that we want to give advantages to those who could provide us with zero-emission construction machines. At the time, we had one pilot in the city, and we were not even sure if there were machines available, but we had a good market dialogue and we tried it out. Because of that measure, now more than 50 per cent of the construction sites that are run by the municipality of Oslo are with zero-emission.”¹⁴

The GLA adopted a Responsible Procurement Policy in 2022, which relates to carbon emission reductions.¹⁵ The policy states that contracts exceeding £5 million must include an organisational Carbon Reduction Plan.¹⁶ Catherine Barber shared with the Committee that:

“Regarding our indirect emissions impact, we have a responsible procurement policy that we actively monitor. We've recently published case studies showcasing its impact on carbon emissions, sustainability indicators, equalities, and broader sustainability. However, we lack a comprehensive dataset with concrete numbers that can be easily tracked year after year.”¹⁷

Prof. McLachlan suggested additional approaches alongside procurement that could potentially impact changing behaviours and guiding decisions toward more meaningful carbon reductions. She stated that:

“If there are places where you can prevent someone having to make a decision because of a way of doing something - we never install gas boilers, for example, we just do not ever do that - then that is a much more elegant solution to this. Do not put everyone into a constant state of assessing and deciding when you know the best course of action in certain areas. Any more guidance you can give to people on that is a productive way to keep people's resource going into all that decision-making in the right places, rather than places where we already know we should be getting to: EVs in our fleet, moving off fossil fuel heating, etc.”¹⁸

¹³ [London Assembly Budget and Performance Committee - 21 September 2023 \(p4\)](#)

¹⁴ [London Assembly Budget and Performance Committee - 21 September 2023 \(p4\)](#)

¹⁵ [Responsible Procurement GLA Group Implementation Plan \(2022-24\)](#)

¹⁶ https://www.london.gov.uk/sites/default/files/gla_group_rpip_2022-24.pdf

¹⁷ [London Assembly Budget and Performance Committee - 21 September 2023 \(p23\)](#)

¹⁸ [\(Public Pack\) Appendix 1 - Budget and Performance Committee Transcript - 21 September 2023 \(Climate Budgeting\) Minutes Supplement for Budget and Performance Committee, 21/09/2023 10:00 \(london.gov.uk\) \(p23\)](#)

Recommendation 3

The GLA should provide explicit guidance on areas where GLA funding should never be allocated to reduce carbon emissions.

Implementing climate budgeting

The Committee was encouraged by some of the initial impact since the GLA adoption of climate budgeting. Enver Enver, the GLA's Acting Chief Finance Officer and Assistant Director, Group Finance and Performance reflected to the Committee:

*"That is a decision [Climate budgeting] that has changed the currency. Folks like Luke [Webster] and I would never have looked at CO2 reduction, it would be, "What is the payback?" and we would look at it purely in the one currency. Now we are looking at it in two currencies and saying, "Well, maybe this one will take slightly longer to pay back financially, but in terms of CO2 it is paying back faster than the other option." Then you have to put that into what the policy is of the organisation. If you have an organisation, as we have, that is aiming for net zero by 2030, that CO2 reduction plays a significant part in the decision-making."*¹⁹

During the session, Heidi Sørensen also emphasised that to ensure effective climate budgeting: *"You need a good inventory. You need to know what your biggest challenges are and what the emissions are that you are going to remove from the city. When you have that, you need a system where you are able to say what has to be done by who, when, and - where relevant - at what necessary budgetary cost."*²⁰

In addition, Heidi also emphasised that while accounting methods for climate emissions may not always be precise, they do offer a broad yet accurate overview that guides decision-makers effectively, Heidi reflected that:

*"I remember the first climate budget that was passed was passed with a very slim majority and there was a lot of discussion. Much of the discussion was about: was the measure measured accurately enough? Did we really know what would happen if we did A, B and C? We at the Climate Agency put a lot of work into trying to do the numbers as well as possible. But after a couple of years, we realised that accuracy in how much each measure will reduce emissions was not the key thing. The key thing was to have a broad overview and a good sense of information about what were the most important measures to actually achieve reductions."*²¹

This perspective was further reinforced by the Director of Manchester's Tyndall Centre for Climate Research, who noted, *"There are areas -[...] where we know that the accounting is not super precise, but it is broadly accurate and it gives you a sense of where to direct your attention, and not to get too hung up on the precision when what you want is a bit of a direction of travel."*²²

Climate budgeting and equalities assessment:

Prof. McLachlan also spoke about the use and value of a climate and equalities impact tool, and she highlighted that: *"We have seen some measures in the past that have been very unsuccessful. Part of the*

¹⁹ [London Assembly Budget and Performance Committee - 21 September 2023 \(p7\)](#)

²⁰ [London Assembly Budget and Performance Committee - 21 September 2023 \(p2\)](#)

²¹ [London Assembly Budget and Performance Committee - 21 September 2023 \(p4\)](#)

²² [London Assembly Budget and Performance Committee - 21 September 2023 \(p23\)](#)

*backlash to them has been because they have not been felt to be part of a just transition and they have exacerbated inequalities”.*²³

As a result of perceived or actual negative impacts resulting from some climate measures and actions, institutions such as the Tyndall Centre for Climate Change Research have developed climate and equalities tools. According to Prof. McLachlan the purpose of this tool: *“Is that when you are developing a programme or project it puts you through a set of questions, under a number of different areas, to try to broaden people’s perspective. You might be really focused on one particular thing but if we want to make this work at an authority level, everybody needs to be pulling in that direction.”*²⁴

Your 2024–25 Budget Guidance included details of a pilot for a new approach to Equality Impact Assessment (EqIAs) that the GLA commenced in Summer 2023. This was accompanied by updated guidance on EqIAs. Your budget guidance also highlighted that these assessments would play a pivotal role in identifying equality implications of a policy or programme.²⁵ The GLA’s Acting Chief Finance Officer and Assistant Director told us that: *“I do not know the timelines at the moment. I understand that our officers are testing it. I do not have much more to add [.....] it complements the climate budget work, so we are interested.”*²⁶

Recommendation 4

In response to this letter, the Mayor should provide an update to the Committee on what accounting methods the GLA is using to measure the effectiveness of its climate budgeting, plus any initial evaluation of the impacts in the Equality Impact Assessment (EqIA) pilot programme, specifically concerning climate actions and their broader implementation across the GLA group.

Green Finance Fund

The Committee received an update on the GLA’s Green Finance initiatives from Luke Webster, GLA Chief Investment Officer. He told us about the GLA’s exploration of alternative financial instruments beyond the Green Bond: *“One thing that we might look at, which we had previously discounted because it did not make sense on a cost-benefit analysis, is offering retail bonds. The chance for Londoners to invest as part of this programme might be something that we could explore”.*²⁷

Luke Webster also provided an update on the stalled Green Bonds programme, stating that *“At the moment, I do not see the opportunity for it, but markets can move very quickly. With the local authority treasury community, we have been talking only this week about a concerted programme of sector-wide education to explain to investors the particular strengths of local government credit.”*²⁸

Borough/Housing Association Project Delivery:

The Committee received information about the limitations of the Green Finance Fund, which is for projects within the £1 million to £75 million range, primarily focusing on larger-scale projects. In the session, Luke Webster and Catherine Barber discussed the potential of financing smaller-scale projects through innovative

²³ [London Assembly Budget and Performance Committee - 21 September 2023](#) (p10)

²⁴ [London Assembly Budget and Performance Committee - 21 September 2023](#) (p10)

²⁵ <https://www.london.gov.uk/media/101904/download?attachment>

²⁶ [London Assembly Budget and Performance Committee - 21 September 2023](#) (p11)

²⁷ [London Assembly Budget and Performance Committee - 21 September 2023](#) (p7)

²⁸ [London Assembly Budget and Performance Committee - 21 September 2023](#) (p6)

structures, such as supporting a London Borough to establish a finance scheme that could facilitate smaller scale funding such as home retrofits. Luke emphasised that: *“What we could do now, however, is if a borough wanted to create such a scheme - and there are some who are thinking of these things - we could finance at the borough level through the Green Finance Fund.”*²⁹

You announced on 12 March 2024 that Barnet Council will receive a £2 million loan from the Green Finance Fund to support the borough’s £12 million estate retrofit programme. This aims to retrofit 1,000 buildings, including 150 schools. It is not clear if other eligible organisations are aware of the opportunity to utilise the Green Finance Fund in this manner. Further clarification is needed on the practical implementation of this.

Recommendation 5

The GLA should provide clear guidance for eligible boroughs and organisations about the potential to use the Green Finance Fund for smaller-scale projects, through housing associations or borough-level schemes for home retrofits.

We appreciate the GLA officers and external panel guests’ attendance and engagement with the Budget and Performance Committee. I look forward to your response to this letter by 19 April 2024.

Yours sincerely,



Neil Garratt AM
Chairman of the Budget and Performance Committee

²⁹ [London Assembly Budget and Performance Committee - 21 September 2023 \(p4\)](#)