

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2521

### Title: Local Energy Accelerator

#### Executive Summary:

The Mayor has set a target for London to be zero carbon. To achieve this, we need to accelerate the scale and pace of clean local energy schemes operating in London. Since 2016, the Decentralised Energy Enabling project (DEEP) (approved by MD1542), part of the Mayor's Energy for Londoners programme, has kick started clean local energy for London, contributing to the Mayor's target of 15 per cent of London's energy demand to come from clean and renewable decentralised energy by 2030.

The Local Energy Accelerator (LEA) extends the work started by DEEP for another three years, from October 2020 to September 2023. It will comprise a GLA commissioned and managed project delivery unit (PDU) and the GLA's Decentralised Energy Framework to support public and private organisations to develop and bring into operation their local energy schemes.

This will ensure the build and operation of clean local energy is accelerated, maximises carbon savings and contributes to London's climate emergency response. It is anticipated that by September 2023 the LEA will save 20,000 tonnes of carbon dioxide and generate 3MW of energy. It is proposed to use Greater London Authority and European Regional Development Fund (ERDF) funding on a 50:50 basis.

#### Decision:

That the Mayor approves:

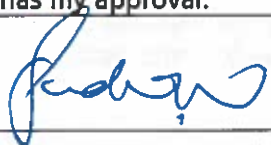
- i) expenditure of up to £6.0m from October 2020 to July 2023 (using £3.0m of GLA funding and £3.0m of ERDF funding), comprising:
  - £0.52m GLA staffing costs for three fixed term posts (a full-time Programme Officer, a full-time Technical Lead for Distributed Energy and a part-time ERDF Compliance Officer). The Programme Officer and Technical Lead for Distributed Energy posts will be fixed term from October 2020 to July 2023 and the ERDF Compliance Officer post will be fixed term from as soon as possible to July 2023;
  - £1.53m for PDU services (to be procured competitively);
  - Up to £3.65m funding to recipients, who will use the funding to call off services via mini-competitions from the GLA's Decentralised Energy Framework;
  - £0.30m, for other programme costs (planning and design tools, communications, training, travel & subsistence, overheads).
- ii) entry into:
  - a grant with the GLA acting on behalf of MHCLG as an Intermediate Body for the ERDF programme, for the receipt of, and claims for, ERDF match funding noted at decision (i) above;
  - contracts for services in relation to the project delivery unit services; and
  - funding agreements with recipients relating to the £3.56m funding set out in decision i) above.

#### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

10/3/20

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1. The Mayor has set a target for 15 per cent of London's energy demand to come from clean and renewable distributed energy by 2030, and the objective to develop clean and smart, integrated energy systems utilising local and renewable energy resources. Decarbonising quicker, in a cost-effective way with less disruption for all Londoners is critical given key developments such as: net zero commitments, heat decarbonisation pathways and rapid transport decarbonisation. Heat makes up nearly 50% of London's energy demand and how to decarbonise heat energy will have a considerable impact on the cost and rate at which London meets its net zero targets.
- 1.2. Current energy demand met from local distributed energy (LDE) is estimated at 2 per cent (London Environment Strategy, 2018) and without further intervention to support the market to mature, London could miss its 2030 LDE targets.
- 1.3. The Local Energy Accelerator (LEA) is part of the Mayor's Energy for Londoners programme and one of a series of 'accelerators' designed to speed up the pace of cutting carbon, reducing demand for energy and achieving zero carbon by 2050. LEA will cut carbon emissions through distributed, flexible, resilient and low carbon heat and power resources. It will help London boroughs and the private sector to build the business case and provide the expertise they need to deliver more LDE across the capital.
- 1.4. LEA will enable LDE (including heat networks, solar Photovoltaics (PV), heat pumps, energy storage, demand side flexibility, smart and vehicle-to-grid charging for electric vehicles) and the integration of power, heat and electrification of transport to play important roles in helping London meet its interim carbon budgets, as set out in the London Environment Strategy, and ultimately the Mayor's zero carbon aim.
- 1.5. In addition to net zero commitments and climate emergency declarations, the contribution that LE schemes can make to addressing wider environmental, social and economic issues is considerable, from improving air quality, helping to alleviate fuel poverty and creating economic growth and local employment around these schemes.
- 1.6. At this moment there is a lack of capacity and capability at the local authority (London Borough) level to bring forward the quantity (circa 120 schemes need to be built in 35 years – Zero Carbon Model, 2019) and quality of LDE schemes that London needs. There is, however, the policy and political commitment to seize the opportunities.
- 1.7. In London, the development of local distributed energy faces the following market failures:
  - the heat industry is an unregulated market, which means less customer protection, fewer rights for infrastructure development (such as wayleaves access for pipe-laying) and more uncertainty for network developers and investors;
  - limited market incentives that encourage regulated energy network operators and energy companies to value and reward the flexible use of energy enabled by low carbon technologies like heat pumps, storage, demand side response and smart charging;
  - no requirement on the energy industry to set net zero targets that then determine their investments and operations;
  - high development and capital costs, partially driven by the high demand for space and competing uses on London roads and buildings and the cost and associated disruption of closing roads to lay pipework and cables;

- lack of consistent adherence to high design and construction standards;
  - insufficient prioritisation of consumer needs, choices and stakeholder engagement, which is essential for the adoption of new low carbon technologies, products and services; and
  - lack of understanding of the options available for locally generating, using and trading in energy markets that are becoming more local, distributed and two-way.
- 1.8. The GLA's approach to addressing the market failure revolves around the role of the public sector in de-risking LDE projects.
- 1.9. LDE schemes and networks continue to rely on public sector leadership and investment for getting schemes built due to three fundamental characteristics: i) long term lifetime of assets and infrastructure that the private sector is not always willing to commit to; ii) need for long term heat and power demand (typically secured through public sector contracts); and iii) access to low-cost public sector financing, which can help keep the costs of provision low.
- 1.10. The strong rationale for GLA intervention in local distributed energy schemes and markets, for example, is to help ensure that heat, power and transport is decarbonised as rapidly as possible. The GLA is well placed, based on eight years of delivering local energy programmes, to address the lack of clean distributed and flexible energy in London in partnership with London Boroughs. In London, for example, the potential efficiency-gains by using heat networks are high due to its high density of heat demand, the availability and ability to make use of clean secondary heat sources from the air, water and tube network, and the heat available from existing or planned waste-to-energy plants.
- 1.11. The continuation of the technical assistance currently provided by the Mayor's Decentralised Energy Enabling Programme (DEEP) (approved by MD1542) and earlier Decentralised Energy Programme Delivery Unit (DEPDU) (approved by MD824) will help to ensure the GLA continues to support the removal of barriers characteristic of an immature market: lack of confidence, understanding and expertise.
- 1.12. The £2.8m DEPDU programme was 90% funded by the European Commission and reported to the European Investment Bank as having delivered: over £100m of projects to market; with incurred and estimated carbon dioxide equivalent (CO<sub>2</sub>e) reduction savings of 43,904 tonnes, electrical capacity of 47.5MW and thermal capacity of 105.3MW. It has actively supported 18 LDE projects worth around £150m and has exceeded its target of 25:1 leverage ratio of capital investment brought to market to European funding by the agreement end date of 31<sup>st</sup> July 2015.
- 1.13. The £3.5m for DEEP is 50% funded by the European Regional Development Fund (ERDF) and is due to complete funded projects in 2020. DEEP is currently supporting 19 organisations to build their own heat networks and associated energy centres in London. The target CO<sub>2</sub>e reduction savings is 17,400 tonnes and 3MW by 2023, which is in line with recent UK Government investment from the Heat Network Investment Project fund. Heat networks deliver reliability, are cost-effective and crucially increase low-carbon heat for homes and businesses, with all these benefits increasing as the networks grow and connect.
- 1.14. This illustrates that technical assistance delivered by the GLA is effective in coordinating activity across London by engaging extensively with both public and private sector stakeholders to achieve these outcomes.
- 1.15. Alternative delivery options that have been considered and rejected are:
- Individual public sector organisations develop and deliver their own schemes. This has been rejected because the public sector does not have the capacity and range of skills and capabilities to take these complex projects from concept through to market.

- Private sector organisations develop and deliver schemes. The market is still too immature for this to happen at the scale required and, even if individual organisations had the capacity and capabilities to deliver, the scheme development stages are too high risk for them right now.
- 1.16. It is important to be able to make progress now to establish the LEA in light of the DEEP coming to an end in 2020, the need to accelerate to net zero, and providing a comprehensive response to London's climate emergency declaration.
  - 1.17. It is therefore proposed - based on what has been delivered to date by the GLA, the need for continued intervention and the rejection of alternative delivery options - to extend the DEEP programme (to be renamed and repurposed the LEA) led by the GLA. This will lead to £3.65m of funding for public and private beneficiaries to call off services via mini-competitions from the GLA's Decentralised Energy Framework dated 26 June 2017. They will also have free-of-charge access to the PDU's bespoke one-to-one support (comprising £1.53m in total) to get schemes delivered. The combination of the direct funding and the PDU's services amounts to circa £2m more support compared with DEEP.
  - 1.18. The GLA will be responsible for making the strategic decisions, with a project manager overseeing the overall strategy and performance including budgetary oversight, and operation, delivery and reporting of the Project Delivery Unit (PDU). Their duties will include:
    - specifying and receiving various performance reports, requesting relevant information from the PDU and acting as a key contract contact point for questions, proposals or requests from the PDU;
    - overseeing and quality assuring the PDU delivery of contractual KPI's;
    - being the lead contact for ERDF;
    - overseeing the promotion, communication and publicity of the programme; and
    - providing escalation support to the PDU.
  - 1.19. To provide support to multiple projects simultaneously LEA's PDU of external specialists will effectively meet the needs of grant beneficiaries, supporting them to get the most from the LEA programme, including the framework of technical, commercial, financial, and legal services. The ability to provide greater and highly targeted levels of support will enable the GLA to focus its efforts on ensuring the best schemes are in the best place to be brought into operation, delivering improved outcomes for all Londoners.
  - 1.20. From an internal governance perspective, the PDU will report to the GLA fortnightly on performance against key performance indicators: current and forecast, activities by user, programme wide and project specific risks and issues and time spent. GLA governance, programme monitoring, and reporting procedures will be used. Delivery will be regularly reported to senior managers and Mayor's Office for strategic oversight.
  - 1.21. The GLA will submit a DEEP Project Change Request, as advised by the Brexit and European Programmes Unit, to the GLA as an Intermediate Body for the ERDF programme to formalise the investment of £3m ERDF grant funding in the LEA.
  - 1.22. The GLA staffing resource includes the costs of three fixed term posts (a full-time Programme Officer, a full-time Technical Lead for Distributed Energy and a part-time ERDF Compliance Officer). These costs form part of our ERDF change request application, with costs covered at 50% by ERDF. The match funding is covered by the GLA and has been accounted for as part of the overall budget.
  - 1.23. Chief Officer approval for the creation of the Programme Officer and Technical Lead posts will be sought (including consulting the GLA Oversight Committee if appropriate) after this MD is approved

so that recruitment can start soon after. Chief Officer approval for the creation of the ERDF Compliance Officer post has already been sought but has not yet been given.

## 2. Objectives and expected outcomes

### Objectives

- 2.1. The programme will benefit both public and private sector organisations that have committed to deliver LDE schemes where either or both is not able or willing to do so alone.
- 2.2. LEA will facilitate and accelerate the delivery of carbon savings, clean energy generation, unlock London's 1GW of flexible power (London Environment Strategy, May 2018) and integrate power, heat and transport energy systems.

### Expected outcomes

- 2.3. The ERDF outputs of the LEA programme are based on the current DEEP targets and set on what is achievable for an extended three and half years. The table below shows the proposed ERDF contracted output indicators to be achieved by December 2023.

ERDF Output Indicators	Total
<p>Estimated greenhouse gas reductions</p> <p>Carbon dioxide equivalent (CO<sub>2</sub>e) is the measure to be used to record savings of carbon associated with the delivery of an operation. CO<sub>2</sub>e covers a wide range of greenhouse gases (GHG) that have an impact on climate change. The estimate is based on the amount of CO<sub>2</sub>e saved in a given year, i.e. a projection of estimated savings of either one year following project completion or the calendar year after project completion.</p>	20,000
<p>Installed capacity (MW)</p> <p>Increase in generation capacity of facilities using renewable energy resources, built/equipped by the project. Includes electricity and heat. The increase will be measured in relation to the capacity of the renewable technology installed. The manufacturer specification for the technology or product will be used to evidence the installed capacity of the technology.</p>	3

## 3. Equality comments

- 3.1. Under s149 of the Equality Act 2010 (the Equality Act), as a public authority the GLA must have due regard to the need to eliminate discrimination, harassment and victimisation, and any conduct that is prohibited by or under the Equality Act; and to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.
- 3.2. The GLA will ensure that (as part of its on-going legal responsibility to have due regard to the need to promote equality, in everything it does, including its decision-making), barriers are removed that may prevent those with protected characteristics benefiting from the programme. This will require the GLA, local authority beneficiaries, the PDU and others supplying services to identify those protected groups who could benefit, determine whether barriers exist and take measures to remove those barriers. This will include estimating the numbers involved for each relevant characteristic and assisting the GLA in discharging its duties under the Public Sector Equality Duty (PSED). In undertaking this action, the GLA's procurement is carried out on its behalf by Transport for London (TfL) which is part of the GLA Group. The TfL Group Policies contain equality and diversity policies as part of its procurement procedures. The GLA adopts those policies. TfL requires all organisations seeking to prequalify to receive tenders meet its policy requirements. Respondents are required to complete an equalities questionnaire and achieve a minimum score in

order to qualify to receive the tender documentation. Further information on TfL equality policies can be found at <https://tfl.gov.uk/corporate/about-tfl/corporate-and-social-responsibility/equality-and-inclusion?intcmp=2747>

- 3.3. The GLA Environment Unit commissioned an Integrated Impact Assessment (IIA) on the draft London Environment Strategy. The IIA incorporated an Equality Impact Assessment (EqIA) to help fulfil the Mayor’s duty under the Equality Act 2010 to work to eliminate discrimination and promote equality in all activities. The EqIA assesses how the strategy would affect groups of people with protected characteristics under the Equality Act 2010: age, disability, gender reassignment, pregnancy and maternity, race, gender, religion or belief, sexual orientation and marriage/civil partnership status. It also considers effects on Londoners on low incomes.
- 3.4. The EqIA has examined the proposed strategy, socio-demographic data gathered in relation to the IIA and consultation findings. Based on this, and using professional judgement, the EqIA has identified a number of disproportionate beneficial effects on equality groups that may occur as a result of the implementation of the strategy, which the LEA has been designed to deliver.

#### 4. Other considerations

*Link to Mayoral strategies and priorities*

- 4.1. The London Environment Strategy sets an aim for London to be zero carbon by 2050. To achieve this aim, the London Environment Strategy sets the objective to develop clean and smart, integrated energy systems utilising local and renewable energy resources. This objective will be delivered by policies and proposals to deliver more clean local energy in London.
- 4.2 Key risks and mitigation:

Risks Description	Probability	Impact	Current RAG Status	Mitigation
LEA fails to deliver expected carbon savings	Low	High	Green	To deliver the expected carbon savings schemes need to be brought through to operation quickly, using low and zero carbon distributed energy resources of enough scale. To minimise this risk, schemes will be prioritised on deliverability, scale and choice of low-carbon technology criteria. The LEA team, which includes the PDU, has the experience and expertise to identify and support the best schemes. The initial focus will be on bringing forward top priority projects from the existing DEEP pipeline that are not yet under construction.
Failure to establish a self-sufficient heat network delivery market	Medium	High	Green	The previous GLA support programmes have been instrumental in supporting heat network delivery not only in London, but in supporting the growth of the market to the benefit of the whole of the UK. Complementary initiatives such as the Heat Network Partnership in Scotland and the Heat Network Delivery Unit in England and Wales have helped mature the market. The UK government is expecting the market to reach a tipping point by 2023 and develop into a self-

				sustaining industry, which aligns with the delivery timeline for LEA. The market conditions will be monitored by the GLA and any additional interventions and actions needed to mature the market will be considered and undertaken where necessary.
Some schemes may not obtain required approval from Senior Officers and/or Council members, resulting in schemes not brought to market and into operation.	Medium	High	Green	GLA to facilitate effective negotiations with beneficiaries and contracted parties. LEA will also be open to the private sector, so depending on the reason for withholding Council approval, private sector delivery partners could be brought in to help deliver the schemes. A typical example would be the finance risk, typically in the earlier phases of projects.
Failure to deliver capacity-building and upskilling of public and private sector stakeholders to support delivery	Low	Medium	Green	Evidence from stakeholder interviews conducted by the GLA indicate that the capacity and capability building exercises from DEPDU, DEEP and FlexLondon have been instrumental in identifying and supporting new schemes and establishing a healthy pipeline. Feedback from these interviews will be reviewed to identify areas where additional capacity building exercises add value. The GLA will continue to prioritise training and knowledge sharing activities. In addition, the LEA delivery model of a PDU providing faster, more proactive support will help ensure multiple beneficiaries can access support services in a timely and effective manner.
Insufficient access to low-cost and long-term finance, preventing schemes from being taken forward	Low	High	Green	In a Carbon Trust study from 2017, the average size of district heating schemes and the overall market size were identified as barriers in attracting enough long-term capital investment funding, e.g. from pension fund investments. A minimum project or project portfolio size of £50 million was identified as necessary to attract external investors, with scheme sizes ranging from £0.5 – £40 million. Due to the density of heat demand in London, the high degree of replicability within and across Boroughs, and a current pipeline valued at £90 million (GLA, 2020), London is best placed to overcome barriers to attracting low-cost financing.
Change in the regulatory	Low	High	Green	Through the London Plan, the GLA influences and sets planning policy to drive LE design for new developments. This includes the adoption

environment makes it more difficult for LDE projects to achieve planning permission				of new building codes and assessments of carbon savings of proposed energy solutions. The GLA will maintain the development of LE as a strategic priority and planning policy will continue to support delivery where suitable.
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4.2. There are no conflicts of interest to declare for any of the officers involved in the drafting or clearance of this decision form.

## 5. Financial comments

5.1. Mayoral approval is requested for expenditure of £6.0m to enhance the current local distributed energy programme by establishing a new Local Energy Accelerator programme.

5.2. Beneficiaries will call off services from a services framework which subject to GLA agreement will be grant funded. The programme will fund revenue work covering early stage mapping and energy master planning, taking project ideas from concept through to feasibility, business case, legal, procurement and commercialisation.

5.3. The programme will be funded by a contribution of £3.0m ERDF grant and matched by GLA budget of £3.0m (which will come from the London Green Fund, via returns on investments). Based upon expected forecasts, it is anticipated the latter will materialise by the end of the 2019/20 financial year which diminishes the investment risk to the scheme.

5.4. The profile and forecast of the required budget is expected to be as follows:

Expenditure (£000)	Financial Year 2020/21	Financial Year 2021/22	Financial Year 2022/23	Financial Year 2023/24	Total
GLA Salary Costs	92	185	190	65	532
PDU	255	510	510	255	1,530
Grants to beneficiaries	576	1,151	1,197	727	3,651
Other	45	92	92	58	287
<b>Total</b>	<b>968</b>	<b>1,938</b>	<b>1,989</b>	<b>1,105</b>	<b>6,000</b>

## 6. Legal comments

6.1. The foregoing sections of this report indicate that the decisions requested of the Mayor fall within the statutory powers of the Authority to promote and/or to do anything which is facilitative of or conducive or incidental to the improvement of the environment within Greater London and in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

- (a) pay due regard to the principle that there should be equality of opportunity for all people;
- (b) consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
- (c) consult with appropriate bodies.



- 6.2. In taking the decisions requested of him, the Mayor must have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who do not share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010). To this end, the Mayor should have particular regard to section 3 (above) of this report.
- 6.3. Officers must ensure that any external services required for the project be procured in accordance with the Authority's Contracts and Funding Code (the "Code") and with the assistance of Transport for London's procurement team. Furthermore, officers must ensure that appropriate contractual documentation be executed by both the Authority and the relevant contractor prior to the commencement of the required services.
- 6.4. The officers are reminded that the Authority is operating on risk for any expenditure incurred in relation to the ERDF grant prior to the Authority's having entered into a grant agreement in relation to same.
- 6.5. The officers are reminded to adhere to the requirements of section 12 of the Code as regards the distribution of the funding referred to in the third dot point of decision i) above. Furthermore, the officers should ensure that the Authority enter into funding agreements with each of the recipients prior to the distribution of the funding.
- 6.6. Under the Greater London Authority Act 1999 (as amended), the Head of Paid Service (the "HoPS") may, after consultation with the Mayor and the Assembly and having regard to the resources available and priorities of the Authority:
- appoint such staff as the HoPS considers necessary for the proper discharge of the functions of the Authority (section 67(2)); and
  - make such appointments on such terms and conditions as the HoPS thinks fit (section 70(2)).
- 6.7. Therefore, should this budget be approved, the matter should be referred to the HoPS in order that the HoPS may consider creating the posts referred to above.

## 7. Planned delivery approach and next steps

Activity	Timeline
Complete ERDF Project Change Request	April 2020
Appoint GLA staff	September 2020
Procure PDU	November 2020
Public launch of LEA programme	December 2020
Closure of grant funding	July 2023
Final evaluation (external)	November 2023
Delivery end date and programme closure	December 2023

### Appendices and supporting papers:

None.

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

**Part 1 - Deferral**

**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason: Deferral is sought to protect the commercial interests of the Authority. Premature release of the information contained in the Decision Form could prejudice the Authority's ability to realise value for money which is not in the public interest.

Until what date: 1 January 2021 (or such other date by which the Project Delivery Unit has been procured, if later).

**Part 2 - Sensitive information**

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form - NO**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to confirm the following (✓)

**Drafting officer:**

Daniel Barrett has drafted this report in accordance with GLA procedures and confirms the following:

✓

**Sponsoring Director:**

Philip Graham has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

Shirley Rodrigues has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**Corporate Investment Board**

This decision was agreed by the Corporate Investment Board on 9 March 2020.

**EXECUTIVE DIRECTOR, RESOURCES:**

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature *m. d. alle*

Date 9.3.20

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature *D. Bellamy*

Date 9/3/2020