

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2172

Title: London commercial boiler scrappage scheme

Executive Summary:

This decision form seeks approval of the funding, development and administration of a rolling three-year pan-London commercial boiler scrappage scheme, as part of the Mayor's Energy for Londoners programme. If the proposals set out below are approved, Government Growth Deal 3 capital funding of £10m will be used to provide about 900 businesses (SMEs and other potential local enterprises) each with cashback on replacement of a working low efficiency boiler with a new efficient low emissions boiler or renewable heating generation. The purpose of the scrappage scheme is to boost commercial energy efficiency retrofit activity, reduce the level of NOx and increase carbon savings in the capital – improving air quality and helping to deliver the Mayor's ambition to make London a zero carbon city by 2050.

It is proposed that the scheme be developed, managed and administered by an external contractor. The contractor will also manage a programme of fraud prevention, including surveys and audit visits to businesses.

Up to ten per cent of the £10m capital funding will be converted into revenue funding to support the development, management and administration of the scheme – subject to a separate approval from the Executive Director of Resources.

Decision:

That the Mayor:

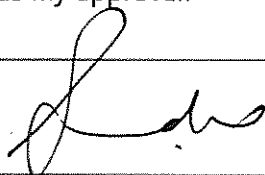
1. approves:
 - (a) expenditure of up to £10m to undertake the development, design and delivery of a rolling three-year pan-London commercial boiler scrappage scheme commencing in 2017/18, funded through Government Growth Deal 3 capital allocation;
 - (b) within the £10m envelope, spend up to £0.5m, and entry into a contract, for services for the development, management and administration of the scheme; and
2. delegates to the Director for Development, Enterprise and Environment, authority to approve the final scheme, following completion of development and design by the appointed contractor.

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:

5/7/12

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

Decision required – supporting report

1. Introduction and background

- 1.1 Air pollution is one of the most pressing environmental and public health challenges facing London today. National and local plans to reduce air pollution centre on the creation of 'Clean Air Zones' and low/ultra-low emission zones, and the Mayor is pressing the Government to introduce a national vehicle scrappage fund for older diesel vehicles, to support the switch to cleaner vehicles.
- 1.2 However, as actions to improve air quality within the transport sector deliver improvements, these efforts alone will not necessarily deliver compliance with legal or safe limits on air pollution. Action is therefore needed to significantly reduce emissions from other sources, in particular NO_x emissions from existing buildings. We estimate that commercial gas consumption (i.e. commercial boilers) are responsible for around seven per cent of London's total NO_x emissions.
- 1.3 In addition to the air quality challenge, London also needs to decarbonise its non-domestic buildings, which are responsible for around 44 per cent of carbon emissions. We will require major scaling up of energy efficiency activity if we are to make London a zero carbon city by mid-century and deliver a fair contribution to global climate change mitigation. It is therefore necessary to introduce programmes that can rapidly boost emissions reduction, in order to achieve legally binding air quality targets and realise additional carbon savings.
- 1.4 To that end, the GLA has been awarded £10 million through the Government's Growth Deal 3 to specifically deliver a rolling three-year pan-London commercial boiler scrappage scheme in 2017/18, 2018/19 and 2019/20. The LEAP Board approved the scheme on 28 June 2017.
- 1.5 The commercial boiler scrappage scheme, which will be the first of its kind in the UK, will be delivered under the Mayor's umbrella programme, Energy for Londoners (EfL), which will drive all activities around carbon reduction, energy efficiency and supply, and fuel poverty support.
- 1.6 There is a strong case for a boiler scrappage scheme aimed at the commercial sector:
 - **old inefficient boilers, which are still working after many years, are not necessarily a priority to replace for businesses, as a result of a split incentive.** This has two costs associated with it. First, the tenant/business occupying the building will be paying higher bills to operate the boilers compared to new efficient ones. Second, in environmental terms older boilers generate far higher emissions (both NO_x and CO₂), which get more polluting over time. The structure of ownership and tenure of most non-domestic buildings means that the payback in fuel/cost savings are often not realised by the parties bearing the capital expenditure. Thus there is little incentive for older more polluting boilers in this sector to be replaced
 - **installing an efficient boiler/renewable heating technology can be a cost-effective way to cut NO_x emissions, CO₂ emissions and energy bills.** For example, heating accounts for around half of SME's energy consumption, and boilers represent 30 to 40 per cent of energy spend each year. In central London the proportion of emissions from commercial gas use is expected to grow significantly from 28 per cent in 2013 to 38 per cent in 2020 as transport emissions fall¹
 - **a strong precedent already exists. Boiler scrappage schemes have been some of the most successful central and regional government energy efficiency interventions and have secured excellent consumer satisfaction ratings.** They have assured rapid emissions reduction and energy savings (that have in some cases exceeded initial estimates). Successful schemes to date include:

¹ Recent updates to the LAEI to incorporate up to date emissions functions for road vehicles predict slightly higher transport emissions both in 2013 and 2020. As a result the *proportion* of emissions from commercial gas appears slightly lower than in previously published figures. The total amount of emissions (mass of NO_x), however, has not changed.

- GLA's previous London Boiler Cashback Scheme which provided cashback to 3,694 owner occupiers and accredited private landlords within the domestic sector
- Scottish Government's annual boiler domestic scrappage scheme, and current SME Resource Efficient Scotland scheme which helps businesses reduce their energy costs through measures such as boiler replacements
- DECC's 2010 domestic boiler scrappage scheme where applications for cashback exceeded £50m
- **there is expected to be sufficient demand for a commercial boiler scrappage scheme in London** (37 per cent of non-domestic buildings that have been given an Energy Performance Certificate since 2009 have the worst energy ratings of E, F or G and are wasting energy and money). In addition, figures published by DECC suggest that there are around 42,000 non-domestic gas meters in London² – two thirds within the commercial sector.

Scheme design: eligibility and requirements

- 1.7. While exact eligibility criteria will be subject to detailed design work, requirements for the scheme will broadly be as follows:
1. **applicants** must be businesses operating in London
 2. **boilers being replaced** must be inefficient, gas, oil, LPG, solid fuel (exact threshold to be set at detailed design stage)
 3. **replacement boilers** must be highly energy efficient and ultra-low NO_x (rated NO_x emissions below 40 mg/kWh) efficient gas and/or renewable heating technology (such as heat pumps) would be eligible)
 4. **installations** must be undertaken by a Gas Safe (formally CORGI) accredited installer (in line with the legislative requirement to do so), for oil a member of the competent person's scheme (such as OFTEC or HETAS), or for renewable heat technologies (e.g. heat pumps), a Microgeneration Certification Scheme (MSC) accredited installer or equivalent (see paragraph 1.9 below on fraud and quality assurance).³
 5. **applicants must pay** for the full cost of the boiler replacement prior to claiming cash back (ie. claims may only be made for cash following a successful applicant's boiler installation, and payment having been made for their replacement boiler).
- 1.8. An external contractor will be procured to undertake development and delivery of the scheme, which will initially include analysis and market testing to determine the detail and terms of the scheme including:
- **size and type of businesses that are eligible to apply**, which will also have a bearing on who bears the cost of replacement (as set out in paragraph 1.6, bullet 1, above)
 - **the level of the cap on the size of boiler that is eligible**, which will have implications for the number of businesses that can be helped through the scheme. The cost of a new energy efficient gas boiler or renewable heating system varies greatly. Commercial gas boilers can cost around £60,000 typically for larger buildings occupied by several SMEs/commercial enterprises) and to up to £25,000 for individual boiler replacements for a single SME (which would indicate that significantly more businesses could be helped if a cap was lower and a greater number of individual SMEs applied to the scheme)
 - **the exact level of cashback provided to businesses** which is expected to be between 20 to 40 per cent of the total cost of replacement (regardless of system size). Experience with the London and national domestic boiler scrappage schemes indicates that a minimum of 20 per cent

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/527628/Sub-national_electricity_and_gas_consumption_summary_report_2014.pdf

³ For the remainder of this paper, Gas Safe and Microgeneration Certification Scheme (MSC) installers will be referred to as certified installers

cashback is sufficient to drive uptake. In meeting scheme objectives, the level of cashback may need to vary according to:

- **the type of replacement technology** e.g. with a higher level of cashback given to renewable installations, such as heat pumps or even hydrogen fuel cell technology which at present is costly to purchase and install. Incentivising take up of renewable heating could enhance NO_x and CO₂ savings as they eliminate combustion on-site⁴
- **location of the business** e.g. with a higher level of cashback given to businesses within the central London area or hotspots where air quality pollution levels are significantly higher.

Regulation, quality assurance and fraud prevention

- 1.9 The installation of gas heating systems is highly regulated through Gas Safe, which is primarily a health and safety regulatory regime where installers have to be accredited. Installers risk losing their jobs and can be subject to criminal proceedings if they do not carry out their duties in accordance to the law. The Gas Safe Register contains details of all certified gas installers in the UK. In addition, the Microgeneration Certification Scheme (MCS) for renewable heating systems is a nationally recognised quality assurance scheme, supported by the Department for Business Energy and Industrial Strategy.
- 1.10 In order to provide assurance that funds under the scheme would not be acquired or used fraudulently, a **Fraud Reduction Framework** will be put in place, comprising eligibility checks, pre and post-installation audit visits. Checks will also be made of all claims against work notified to Gas Safe and other accreditation bodies (e.g. MCS). Any claims for works that have not been notified to Gas Safe, which is currently a requirement, would be investigated. In addition, each business would be required to have a survey prior to boiler replacement to undertake technical due-diligence.

Targeting specific businesses

- 1.11 By encouraging lower installation costs (e.g. by encouraging businesses to shop around and obtain up to three quotes from accredited installers, e.g. Gas Safe) we may broaden the reach of the scheme by making boiler replacement even more affordable for SMEs. In addition, we would expect the scheme to trigger some energy companies and installers to complement the GLA offer, offering even better value for the business, particularly for businesses starting up. Offers made by energy companies and installers may also increase the number of installations, increasing carbon savings as a consequence.
- 1.12 We plan to work through organisations such as the Federation of Small Businesses (FSB), NGOs and boroughs to ensure that the greatest impact is made through the scheme.
- 1.13 This scheme will also offer a way for landlords to achieve the non-domestic private rented minimum property standard; from April 2018, private non-domestic (and domestic) landlords must ensure that properties they rent in England and Wales reach at least an Energy Performance Certificate (EPC) rating of E before granting a tenancy to new or existing tenants. These requirements will apply to all private rented non-domestic properties – including properties where there has been no change in the tenancy arrangements – from April 2023.

Proposed next steps

- 1.14 We plan to procure and appoint a contractor to develop, manage and administer the commercial boiler scrappage scheme. The contractor will also undertake the fraud reduction framework. An Invitation to Tender will be issued following a Mayoral Decision.
- 1.15 Before the scheme commences, the GLA would convene trade bodies, manufacturers (which directly communicate with suppliers/installers) and NGOs, to brief them on the scheme and gain their agreement to promote the scheme and generate complementary offers.

⁴ This could also help accelerate the uptake, innovation and cost reduction of renewables, while sustaining jobs in the renewable heating sector.

- 1.16 However, the GLA will not give preference to any particular manufacturer, supplier or installer. To avoid any distortion of the relevant market, the GLA will interact with eligible businesses throughout the scheme to whom the benefit of the cashback will accrue, albeit for efficiency of delivery and management of the scheme.
- 1.17 Once detailed development and design work has been undertaken by the contractor, a further Director Decision will be required to approve the detail of the final scheme, ahead of launch.
- 1.18 Around the time of the launch, we would contact boroughs and key organisations inviting their support and assistance, to ensure the scheme is directed at eligible businesses.
- 1.19 To ensure robust management of the contractors and delivery of the scheme throughout the process, the Environment Unit's Projects Steering Group will review progress each quarter. It includes the Deputy Mayor for Environment and Energy, Executive Director for Development, Enterprise and Environment, and senior representatives from the Environment Unit.

2. Objectives and expected outcomes

- 2.1 The purpose of the scrappage scheme is to rapidly boost commercial energy efficiency retrofit activity and the level of NOx and carbon savings in the capital, to improve air quality and help deliver the Mayor's ambition to make London a zero carbon city by 2050.
- 2.2 The scheme outlined above will drive savings in NOx and carbon emissions, and energy and financial savings (which will be determined by factors set out in paragraph 1.8 above). The appointed contractor will calculate these savings through the development of the scheme. The scheme is broadly expected to drive considerable benefits across London by:
 - a. **improving air quality.** By reducing NOx emissions by up to 80 tonnes per year (exact NOx savings will depend on the size and efficiency of existing boilers, and replacement systems). In addition, reducing human exposure to air pollution, leading to improved public health
 - b. **saving carbon.** By reducing CO₂ emissions between 20 and 70 thousand tonnes per year (exact CO₂ savings will depend on the size and efficiency of existing boilers, and replacement systems)
 - c. **delivering non-domestic retrofits.** Replacing around 900 commercial boilers across London
 - d. **saving up to £7m per year off business' fuel bills** which will significantly help reduce overheads for SMEs and other potential local enterprises
 - e. **a reduced risk of carbon monoxide poisoning**
 - f. acting as a catalyst to **spur on additional energy efficiency improvements** (e.g. heating controls and insulation)
 - g. **driving investment** in low emissions and renewable heating systems, and **helping to sustain work and create new jobs for the low carbon and heating sectors** (installers and manufacturers) across the capital, in particular many SMEs which deliver installations.

3. Equality comments

- 3.1 The GLA will take appropriate steps to ensure that there are no potential negative impacts expected on those with protected characteristics. Those with protected characteristics will gain from the positive benefits of this scheme in equal measure should their businesses be selected, and there will be equality of access to participate in the delivery and benefit from the scheme, without discrimination. The scheme will benefit Londoners as a result of positive improvements in air quality.

Given the unequal impacts of pollution on the most vulnerable Londoners there will be a positive effect in tackling social and health inequality through this programme of activity.

4. Other considerations

4.1 The key risks and issues for delivery of these projects are set out in the table below:

Risk	Likelihood (out of 5)	Impact (out of 5)	Rating	Mitigation
Lack of take-up results in lower than expected savings	1	2	2	Avoid. GLA will ensure a comprehensive marketing and communications campaign. In addition, the GLA will convene market and trade bodies ahead of the launch so they can also advertise the scheme. Market testing will be undertaken to inform the exact level of cashback (based on a business' perception of what incentive is worth the effort of applying and changing their heating system).
Overprovision of the cashback leads to overspend	1	2	2	Avoid. An on-line payment system will be established to process applications commensurate with available budget.
Scheme is misused and fraudulent claims are made	1	4	4	Avoid. GLA will expressly state that all boiler replacements made as part of the scheme need to be undertaken by a certified engineer in accordance with the law. In addition, a programme of surveys, pre-installation and post-installation audits will be carried out.

5. Project Costs

- 5.1 There will be no GLA funding contribution to this project. The GLA will receive £10m grant funding from Growth Deal 3 to support businesses replace their inefficient and polluting boilers. The funding will span three financial years, 2017-18, 2018-19, and 2019-20, and will be managed by the Energy Efficiency team, within the GLA Environment Unit. Up to 10 per cent of the capital budget will be switched into revenue funding, to pay for a contractor to develop, manage and administer the scheme, among other associated project costs, including marketing and communications.
- 5.3 The GLA will transfer to the appointed contractor sufficient capital funds in tranches to pay for the cashback issued to businesses, which will be paid on monthly arrears, to ensure they have a working float so they can issue payments to businesses when necessary. Similar to the management and administration of the previous London Boiler Cashback Scheme, and Better Boilers, the Energy Efficiency Team within the Environment Unit will audit a sample of verified successful applications, prior to releasing each tranche of funding, to extend the due diligence checks and safeguard against system mismanagement.

6. Financial comments

- 6.1 The decision form is seeking approval to procure a contractor to develop, administer and deliver the London commercial boiler scrappage scheme. The objective of the scheme is to provide a percentage reimbursement to businesses for the replacement of their boilers. The GLA will transfer funds to the successful bidder and the applicant will be reimbursed by the scheme manager in arrears. The scheme manager will also be responsible for fraud prevention.
- 6.2 The paper is also seeking approval for a budget of £10m, which will be allocated to the scheme over three years from 2017-18 to 2019-20. Up to ten per cent of the budget will be allocated to revenue expenditure and the remainder allocated to capital expenditure – subject to this capital/revenue swap being approved by the Executive Director of Resources. The budget of £10m will be funded from funds secured from Government as part of the Growth Deal 3 funding.
- 6.3 A further decision will be issued following the results of the procurement process, for which financial comments will be provided. The decision will provide further analysis of the project's planned expenditure.

7. Legal comments

- 7.1 The foregoing sections of this report indicate that:
- the decisions requested of the Mayor concern the exercise of the GLA's general powers, falling within the statutory powers of the GLA to do such things as may be considered to further, and or be facilitative of or conducive or incidental to the furthering of, the promotion of the improvement of the environment in Greater London; and
 - in formulating the proposals in respect of which a decision is sought officers have complied with the GLA'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.
- 7.2 In taking the decisions requested, 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 director should have particular regard to section 3 (above) of this report.
- 7.3 Officers have indicated in this report that a significant proportion of the expenditure proposed will amount to the provision of grant funding (in the form of cash back) as a contribution to the project costs of successful applicants and not a payment for services to be provided. They must ensure that the proposed funding is disbursed in a fair and transparent manner in accordance with the GLA's Contracts and Funding Code and a funding agreement is put in place between and executed by the GLA and successful applicants before any commitment to the provide funding is made.
- 7.4 To the extent that it is proposed that expenditure is incurred on the procurement of works, services or supplies, officers must ensure that the works, services or supplies are procured in accordance with

the GLA's Contracts and Funding Code and that appropriate contract documentation is put in place and executed by the successful bidder(s) and the GLA before the commencement of any works, services or supplies.

- 7.5 The Mayor may, under section 38 of the Greater London Authority Act 1999, delegate the exercise of the GLA's functions to the Executive Director - Resources as proposed should he so wish.

8. Planned delivery approach and next steps

Activity	Timeline
Agree scheme scope and delivery timetable and mobilise core project team	September 2017
ITT issued	Mid-September 2017
Appoint contractor to design and administer scheme	End November 2017
Develop scheme including, market testing, T&Cs, establishment of on-line administration system	December to February 2017
Convene and prepare the market and trade bodies	January 2017
Director Decision (DD) to approve final shape of the scheme	January 2017
Scheme launched	Early March 2018
Scheme Closure	March 2020

Appendices and supporting papers: none

Appendices: none

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) 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 approval 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: the publication is being deferred until launch of the London Boiler Cashback Scheme on or around 21 March 2018.

Until what date: 21 March 2018

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be 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:

James Hardy has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

Assistant Director/Head of Service:

Patrick Feehily has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

Fiona Fletcher-Smith 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 4 September 2017

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

Date

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE

04-09-17

CHIEF OF STAFF:

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

Signature

Date

D. Bellamy

4/9/2017

