LEAP
The Local Enterprise Partnership for London

LEAP Investment Committee

Date of meeting:	**21 May 2019**
Title of report:	**Cleaner Heat Cashback Update**
To be presented by:	**James Hardy, Energy Efficiency Team Manager**
Cleared by:	**Luke Bruce, Interim Assistant Director - Environment**
Classification:	**Public**

1 Executive Summary

1.1 The Cleaner Heat Cashback (CHC) programme was developed to address CO_2 and NOx emissions from commercial buildings, in support of the Mayor's ambition to make London a zero carbon city by 2050 and in recognition of the increasing risk to the economy of a perception of inaction in tackling environmental issues.

1.2 An underspend against the £9.450 million capital budget is forecast due to lower than expected take up. Despite efforts to resolve this through stakeholder engagement and targeted marketing, even with widened eligibility our forecasts show that the majority of funds will not be spent prior to scheme end in March 2020.

1.3 The Good Growth Fund (GGF) and Business Low Emissions Neighbourhoods (BLEN) schemes are well placed to receive the surplus from CHC. GGF is a cross-cutting fund that delivers across a range of Mayoral priorities and environmental considerations are part of that (i.e. the money would therefore continue to further environmental objectives). In addition, BLENs are delivering both economic, environmental and health benefits on High Streets and other busy commerce-rich yet heavily polluted locations.

2 Recommendations

2.1 That the continuation of a scaled back CHC scheme with a capital budget of £500,000 be endorsed.

2.2 That the repurposing some of the funding to the BLEN Air Quality Scheme be endorsed.

2.3 That the transfer of the remaining capital funding to the GGF, on the assumption that additional environmental outcomes are sought (such as including through recipient grant agreements), be endorsed.

3 Introduction and Background

3.1 HM Government awarded a total of £141.3 million to the LEAP for Growth Deal 3 in January 2017. As part of the announcement, Government highlighted that the funding would support delivery of an ‘Air Quality Programme’ to improve London’s air quality through a commercial boiler scrappage scheme and further grant support to businesses, organisations and Business Improvement Districts to implement measures to reduce pollution from their operation’.

3.2 Although Government’s public announcement of the Growth Deal did not allocate a specific amount to the scrappage scheme, £10 million of funding from the Growth Deal was earmarked to support the scheme.

3.3 The scheme was developed to tackle emissions from existing buildings in the commercial sector. Air pollution is one of the most pressing environmental and public health challenges facing London today. Air pollution in London has significant economic costs, including to business, of up to £3.7 billion a year. While 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. Therefore, action is needed to significantly reduce emissions from non-transport sources, in particular NOx emissions from buildings[1].

3.4 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. A major scaling up of energy efficiency activity is required to deliver the Mayor’s ambition to make London a zero carbon city by 2050.

3.5 The purpose of the CHC is therefore to boost non-domestic energy efficiency retrofit activity and the level of NOx and carbon savings. Reducing pollution exposure of people shopping, visiting and working in town centres, and retail and commercial areas that are situated in pollution hotspots will help to increase their appeal for customers and workers, thereby supporting business and enterprise. Many businesses are also concerned about the impacts of air pollution on their workforces, including reduced productivity.

3.6 The LEAP Board endorsed the scheme on 28 June 2017. Mayoral Decision 2172 for the London Commercial Boiler Scrappage Scheme (now known as the CHC) was signed on 5 September 2017 giving authority for the development, design and delivery of the scheme. CHC aims to provide around 900 businesses (SMEs and other potential local enterprises), with cashback of between 30-40 per cent on the replacement cost of a working low efficiency boiler, with a new efficient low emissions boiler or renewable heating generation.

3.7 The Energy Saving Trust (EST) were appointed to design, develop and deliver the scheme following an OJEU compliant procurement exercise and the scheme was launched on 31 July 2018.

3.8 To date, take-up of the scheme has been very low, despite a significant and varied marketing and engagement push. The status of applications is set out in the table below:

[1] NOx emissions from commercial gas consumption are expected to grow significantly as a proportion of emissions in central London from 30 per cent in 2013 to 42 per cent in 2020.

Application status	Number	Cashback value
Number of incomplete applications	74	n/a
Number of completed applications	27	n/a
Number of rejected applications	14	n/a
Costed applications in the pipeline	9	£109,609
Cashback vouchers issued	5	£58,744
Of which: Cashback voucher redeemed	*1*	*£5,693*

3.9 To address poor take up, work has been undertaken to understand and address the barriers to participation and increase feedback on the scheme. This includes a stakeholder roundtable and focus groups with SMEs, improving the application process through greater support, and targeting SMEs directly with scheme information through digital and print advertising as well as direct mail-outs. There has also been increased stakeholder partnerships and joint working with Business Improvement Districts (BIDs), property owners, estates and sector based support organisations such as the Institute for Hospitality.

3.10 Barriers to scheme take up identified include a lack of drivers to action (i.e. regulation which is present for other sectors like vehicle scrappage schemes), and businesses not prioritising energy efficiency measures in a challenging and uncertain economic climate, even though they would save money in the long run. SMEs have limited capacity to arrange the work and therefore wait until the boiler is broken (although boilers must still be working to meet CHC eligibility criteria). Decision making timeframes are long, particularly as SMEs rarely own the freehold, exacerbating the landlord/tenant split incentive. There is also a mistrust of the rate of return from a new boiler which may be longer than the length of tenancy. The experience of other financial incentive programmes, such as the Green Deal, demonstrates that voluntary approaches are far more challenging than regulated obligations[2]. For example, the GLA's vehicle scrappage scheme coincides with the Ultra Low Emission Zone which has set strict emission standards, creating a 'burning platform' to encourage participation in the scheme as people need to change their vehicle.

3.11 In addition, feedback from installers and manufacturers (including British Gas) has been that over 60 per cent of their commercial installations are boilers that are smaller than CHC's minimum 70 kilowatt (kW) size-rating requirement, and this threshold excludes many businesses that the scheme could otherwise support. There was broad support from the LEAP Programme Board on 6 March 2019 for removal of this threshold, subject to further consideration, which has been undertaken by Senior Officers and approved by the Deputy Mayor for Environment and Energy on 30 April 2019.

3.12 Despite continued targeted marketing and widened eligibility criteria through the removal of the 70kW threshold, take up is not forecast to increase in significant numbers and **it is recognised that the full budget would not be committed/spent before 31 March 2020**.

[2] For example, modelling undertaken for London's '1.5C compatible pathway' suggests that Minimum Energy Efficiency Standards, with rigorous enforcement, will be the most effective policy to drive energy efficiency in the commercial sector.

3.13 As a result, it is recommended that the majority of capital funds are repurposed to other programmes/schemes which can deliver similar benefits and broader LEAP outcomes, including the existing Low Emissions Neighbourhoods programme and Good Growth Fund.

3.14 It is also recommended that £500k capital is retained to deliver against existing CHC commitments and allow for a smaller number of new applications to benefit between now and end of March 2020.

4 Issues for consideration

4.1 Substantially reducing the level of funding to the scheme and reallocating the remainder to other schemes is likely to be a lower reputational risk than closing the scheme entirely, as that would leave us with no alternative offer for SMEs.

4.2 In the recent Spring Statement, the Department for Business, Energy and Industrial Strategy (BEIS) set out their plans to support SMEs in improving their energy efficiency, which underpins a government target for businesses to achieve at least a 20 per cent improvement in energy efficiency by 2030. It's considered important that the GLA maintains a supporting role in this area.

4.3 Lessons learned will be taken forward into future energy efficiency schemes and other business and SME focused schemes through an evaluation, internal review and an internal 'lessons learned' document.

5 Equality comments

5.1 Not applicable – addressed at scheme start up.

6 Risks arising / mitigation

	Risk description (cause, risk, event, potential impacts)	**Probability (1-5)**	**Impact (1-5)**	**RAG**	**Mitigation/risk response (state if the response is done or pending)**	**GLA Owner**
1	Continued lack of take-up results in additional underspend	3	3	A	GLA will undertake a revised and sector specific marketing campaign, working in partnership with business support organisations, trade representative bodies and landlords. In addition, the GLA will work jointly with BEIS on joint marketing of our SME schemes and with the Camden Climate Change Alliance who are shortly launching SME grant funding which could match the GLA cashback. These relationships have already been developed and joint events scheduled.	James Hardy

	Risk description (cause, risk, event, potential impacts)	Probability (1-5)	Impact (1-5)	RAG	Mitigation/risk response (state if the response is done or pending)	GLA Owner
2	Increased marketing and scheme changes result in demand which cannot be met within reduced budget	2	2	A	Levels of take-up to date suggest that despite these changes, take-up will remain low. However, close budget monitoring will continue to be undertaken and the scheme will be closed to new applications should budgetary limits be reached.	James Hardy
3	Scheme is misused and fraudulent claims are made	1	4	A	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. Due diligence checks will ensure that only commercial systems are supported.	James Hardy

7 Financial Comments of the Executive Director Resources

7.1 As outlined above, funding from the boiler scrappage scheme (now known as the CHC) was identified within the total of £141.3 million Growth Deal 3 awarded to LEAP by central government.

7.2 Mayoral Decision 2172 subsequently approved expenditure of up to £10 million (£9.450 million capital and £0.550 million revenue) for the London Commercial Boiler Scrappage Scheme (now known as the CHC), to be wholly funded from the funding received through the Government's Growth Deal. As outlined above, reducing the amount available for the scheme from £9,450,000 to £500,000 would enable up to £8,950,000 of this funding to be reallocated to other projects.

7.3 The table above highlights that £58,744 of cashback vouchers have been issued or redeemed, with a further £109,609 of costed projects in the pipeline. Given the low take-up of the scheme, a reduced overall budget of £500,000 is considered reasonable and would enable a further £331,647 to be allocated to future applications in the scheme, beyond the spending already forecast.

7.4 The remaining £8.95 million of funding would be available to reallocate. It is proposed that of this amount, £5.95 million would be allocated to provide additional funding for the Good Growth Fund programme and £3 million would be allocated to the Business Low Emission Neighbourhoods (BLEN) Air Quality Scheme. Within this £3 million total it is proposed £0.8 million is reallocated as revenue expenditure subject to a capital/revenue swap approved by the Executive Director of Resources.

8 Next steps

Activity	Timeline
Report to LEAP Board	12 June 18
Final evaluation	March 2020
Delivery end date	31 March 2020
Project closure	31 March 2020

Appendices:

- None