

Item No. 11.	Classification: Open	Date: 19 October 2021	Meeting Name: Cabinet
Report title		Green Buildings Fund	
Ward(s) or groups affected:		Borough wide	
Cabinet Member:		Councillor Helen Dennis, Climate Emergency and Sustainable Development	

FOREWORD – COUNCILLOR HELEN DENNIS, CLIMATE EMERGENCY AND SUSTAINABLE DEVELOPMENT

Delivering on net zero carbon buildings and sustainable development must be the cornerstone of any response to the Climate Emergency, and is central to Southwark Climate Strategy & Action Plan. As a Council, we are committed to playing our part locally in global action to prevent catastrophic climate change, and have promised to embed climate action in all that we do. The first theme of our Strategy & Action Plan is ‘Greener Buildings’, and from the analysis that we’ve commissioned, we understand that buildings in our borough are responsible for 79% of carbon emissions. With that in mind, it is vital that we use our powers as a planning authority to insist on exemplary new build schemes, and to push for the greatest possible ambition when it comes to the achievement of on-site CO2 emissions reduction. This is why our New Southwark Plan will require the reduction of emissions by 100% on 2013 regulations for residential developments, and 40% for non-residential, and why we have committed to an early review of the NSP to see if we can go even further.

However, we also know that technology in this area is still developing, and that schemes presently, are unable to meet these targets – this is why our Carbon Offset Fund is an essential tool for the Council, ensuring that financial contributions are legally secured that enable us to meet net zero by 2030. This report sets out how we plan to oversee and spend these carbon offset payments, establishing a ‘Green Buildings Fund’ which can enable work on community buildings, schools and council homes. As set out in our Climate Strategy & Action Plan, we will need much greater investment from central government to supplement this fund, but we are excited by the potential it offers to decarbonise some of our borough’s important community assets. This report also signals our intention to establish a local carbon offset price, building on the current London Plan price of £95 per tonne, which more closely reflects the full cost of carbon offset projects. It is my hope that over time, new technologies and a revised carbon price, will move us to a place where on-site savings are maximised, and where central government significantly increases the amount of funding that local authorities can access for this vital climate emergency work.

RECOMMENDATIONS

1. That all secured carbon offset funding is held and consolidated in a carbon offset fund called the Green Buildings Fund to maximise carbon offsetting opportunities.
2. That the Green Buildings Fund is spent to deliver carbon offsetting projects in accordance with the council's Climate Change Strategy and Action Plan. The initial focus of offsetting projects will be the decarbonisation and retrofitting of community buildings, schools and council housing.
3. That officers will prepare recommendations with input from relevant Cabinet Members on which carbon offsetting projects to fund. The relevant delegated officer or the Planning Committee will approve the release of the funds for carbon offsetting projects using existing s106 processes.
4. That the funding criteria for carbon offsetting projects will be agreed by officers and relevant Cabinet Members.
5. That officers seek other sources of co-funding for the Green Buildings Fund, and review options for a new local carbon offset price in parallel to the New Southwark Plan early review, to encourage greater onsite carbon reduction performance and ensure the carbon offset price fully covers offsetting costs.

BACKGROUND INFORMATION

Policy context

National

6. The UK Government statutory commitment is to achieve net zero carbon emissions by 2050 as required by the Climate Change Act (2008) (as amended). This national legislation that applies to governance and institutions to ensure that they are addressing Climate Change. Point 1 of the Climate Change Act (2008) as amended states: "It is the duty of the Secretary of State to ensure that the net UK carbon account for the year 2050 is at least [100%] lower than the 1990 baseline."
7. Several recent national reports and targets define new considerations for a quicker response to the Climate Emergency and carbon emission reductions. These are relevant in the policy context of attaining zero carbon homes as they set out the need to respond quicker to reduce carbon emissions.

8. The Carbon Budget Order (2021) sets out the carbon budget of 965,000,000 tonnes of carbon dioxide equivalent for the next budgetary period 2033-2037. This is a legally binding reduction target.
9. The 6th Carbon Budget (2021) enshrines a new interim carbon target for the UK. The 6th Carbon Budget sets out a target of a 78% reduction in carbon emissions against 1990 level baseline carbon levels by 2035. This brings forward previous carbon targets.
10. The recently published IPCC report (2021) was published in response to the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways' contained in the Decision of the 21st Conference of Parties of the United Nations Framework Convention on Climate Change to adopt the Paris Agreement. The report sets out projected impacts and risks of climate change, and emissions pathways. The report demonstrates why both individuals and organisations need to act quickly to respond to Climate Change.
11. These publications and revised targets are part of an updated policy framework in advance of UN Climate Change Conference (COP26) in Glasgow in October-November 2021. The COP26 summit will bring parties from across the world to work together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change.

London Plan (2021)

12. This 2050 net zero carbon target, as required by the Climate Change Act (2008), is echoed in policy in the published London Plan (2021) which is committed to making London a net zero carbon city by 2050. London Plan Policy SI2 'Minimising greenhouse gas emissions' requires major development to be net zero-carbon. This means that major residential and non-residential development must reduce greenhouse gas emissions in operation and minimising both annual and peak energy demand.
13. The London Plan also requires boroughs to set up a carbon offset fund which is a collection of financial contributions secured through s106 agreements, where new major referable development has not achieved net carbon zero onsite and an offsetting payment is collected by the council to make up the shortfall to net zero.
14. The Fund is ring-fenced to secure delivery of carbon offsetting projects that reduce carbon emissions. Processes will identify a suitable range of projects that can be funded, and appropriate monitoring procedures to enable clear and accurate

reporting to ensure the offsetting is effective and transparent. The GLA has published guidance for management and governance of a Carbon Offset Fund¹.

The New Southwark Plan

15. As a sector, the planning system makes an important contribution to meeting the 2050 net zero target alongside all other sectors. The New Southwark Plan that has recently finished consultation on Main Modifications following public examination in Spring 2021 was prepared to meet the statutory 2050 net carbon zero target by proposing development plan policies that mitigate carbon emissions and ensure development adapts to climate change in general conformity with the London Plan (2021). Once the plan is adopted, likely later this year, the new energy policy 'P69 Energy' will require all major residential development to reduce onsite operational carbon emissions by 100% on 2013 Building Regulations Part L standards. Major non-residential developments must reduce carbon emissions onsite by a minimum of 40% on 2013 Buildings Regulations.
16. On 27 March 2019 Southwark's Council Assembly resolved to call on cabinet to declare a Climate Emergency and to do all it can to make the borough carbon neutral by 2030. In response to this declaration, the planning division will be reviewing its planning policies as part of an early review of the New Southwark Plan to meet this target. The council work to date has seen a 37% reduction in carbon from 2008.

Southwark Climate Change Strategy

17. On 14 July 2021 Southwark's Council Assembly adopted the Climate Change Strategy to set out how Southwark will tackle the Climate Emergency and do all it can to reduce the borough's carbon emissions to net zero by 2030. The planning division is working closely with the Climate Change Team to implement the relevant Action Points within the strategy.
18. At the same time, Southwark's Council Assembly agreed a change to Southwark's Constitution that requires all reports to include information about the climate impact of that decision. This will enable decision makers are able to consider this alongside other considerations when making their decision.

¹ https://www.london.gov.uk/sites/default/files/carbon_offset_funds_guidance_2018.pdf

Section 106 Contributions to the Green Buildings Fund

19. Carbon offsetting is a planning obligation collected under Section 106 agreements. This obligation allows new developments to comply with planning policy where it is not feasible to achieve all necessary carbon emissions savings on the development site. The carbon offset is collected as a financial contribution by the Planning Division's S106 team. The funding is ring-fenced and will be used to 'offset' the carbon footprint of the new development by funding carbon saving projects elsewhere in Southwark. The fund may also receive further funding from external groups such as MHCLG.
20. The council's current carbon offset price at £2,850 per ton of carbon (a rate of £95 per tonne of carbon over a 30-year period) was adopted in November 2020 and is applied to all relevant major residential and non-residential schemes. This price is consistent with the price defined in the new London Plan (2021). The carbon offset price is currently under review. The previous price per tonne of carbon was £1,800 at a rate of £60 per ton of carbon over a 30-year period. The majority of funds currently secured and collected within the council's Fund was secured at the previous carbon offset price of £60 per tonne.

Current total

21. As of August 2021, the council could receive up to £10,351,691.46 of potential carbon offset financial contributions if all permissions were implemented. However, it is unlikely the Council will collect the full amount as some permissions may not be implemented, some may be superseded, and others may have a Section 73 agreed to alter the financial contribution requested. Therefore, this figure could be lower in practice and must be considered as a potential total.
22. As of August 2021, the payments received by the Council from applicants total £2,398,421.46 which must be used to offset the total tonnes of carbon from new development schemes.
23. As of August 2021, this equates to circa 175,000 tonnes of carbon that needs to be offset by the potential payments to the Fund if all development that has been consented is delivered. The current total of tonnes of carbon to be offset is circa 42,000 tonnes for received payments to the Fund.
24. The fund income is currently secured and monitored by the planning division's S106/CIL team using Exacom, a software tool to monitor financial obligations of developments within Southwark.

Forecast

25. The sole purpose of the Fund is to deliver carbon offsetting measures in the borough. In line with the strategic objective to achieve net zero carbon emission in new builds, the Fund foresees a reduced contribution from developments in the future as onsite carbon emission performance improves and therefore emphasises the effective use of the Fund to maximise carbon reduction through the offsetting projects.
26. There is a forecast reduction in financial contributions to the Fund over 10 years, as new developments will achieve high onsite energy performance to reach the 100% net zero carbon target under the new policies and higher cost of carbon. As such, the aim of the fund is to maximise carbon savings for minimum spend, including administration cost.

KEY ISSUES FOR CONSIDERATION

Overview of the Green Buildings Fund

27. The management and governance of the Green Buildings Fund must ensure that the Fund is well placed to deliver offsetting projects that can effectively offset the shortfall in carbon emissions from new developments by offsetting existing carbon emissions.

Decision making

28. Officers will prepare recommendations with input from relevant Cabinet Members on which carbon offsetting projects to fund based on the funding criteria. Decisions on releasing s106 funds will take place using existing and established s106 processes to minimise administrative burden. Projects under £100k will require approval from the relevant Delegated Officer. Projects above £100k will be taken to Main Planning Committee to approve the release of funds for carbon offsetting projects based on the officer recommendation.
29. Officers will review, filter and shortlist potential projects through an application process and provide advice on their acceptability against funding criteria. A decision on whether the project will be funded or not will be taken using the same process for internal and external projects. Officers will have technical support to evaluate and monitor the effectiveness of offsetting projects.

Day-to-day administration

30. Day-to-day responsibility for the management of the Fund and the selection, evaluation and monitoring of offsetting projects will have resource implications for the council. There are no resources currently assigned for this role and therefore a percentage of the collected funds will be used for administration costs (circa 5%) to fund appropriate roles. This will be reviewed as needed. The resource implications for the day-to-day administration of the Fund, will increase with the number of projects funded. The Section 106 and CIL team will be responsible for the ongoing collection and monitoring of the financial contributions secured through s106 agreements.

Carbon offset ratio

31. The carbon offset ratio is a key performance indicator of the Green Buildings Fund. This is the carbon offset price per tonne of carbon compared to the cost of the offset measure to reduce one tonne of existing carbon emissions. For example, if the cost of carbon is £95 per tonne, the council should spend no more than £95 per tonne of carbon to offset a tonne that has been emitted. This is expressed as a ratio of £95: £95 or 1:1.
32. As such, a carbon offset ratio of 1:1 will be a core criterion for the successful funding of offsetting projects so that they deliver the required carbon reductions at the required cost per tonne - £60 or £95 per tonne depending on the carbon offset price at the time the s106 legal agreement was agreed.
33. The Fund must achieve a 1:1 carbon offset ratio as early and consistently as possible to achieve the ambition of meeting net zero development. The Fund will need to be flexible in terms of types of projects it funds to ensure this. If the 1:1 carbon offset ratio is not achieved, the underperformance will put pressure on subsequent project spending to achieve higher levels of carbon emission reductions that potentially cost more to implement. If the ratio is lower than 1:1, e.g. 1:2, the council would spend more than £95 on offsetting each tonne of existing carbon, again resulting in an underperformance in reaching net zero. Moreover, further projects would need to achieve greater carbon emissions reductions to offset underperforming projects that do not meet net zero targets. Therefore, the cost of a project or initiative should not propose a carbon price greater than £95 per tonne if the net zero carbon is to be achieved.
34. Table 1 provides a scenario where financial contributions are secured within the Green Buildings Fund from three planning permissions, based on the carbon price of £95 per tonne, and subsequently how the Fund is used to deliver two projects to offset the residual emissions created by the three schemes. It shows that the offsetting projects can achieve a 1:1 carbon offset ratio as they cost £95 per tonne

of carbon saved. If further projects continue to offset the remaining emissions on a 1:1 carbon offset ratio, the total residual emissions from the three schemes will be fully offset by the funded measures, using the exact amount of financial contributions secured from the S106 agreements.

Table 1: How the carbon offsetting will work (Example figures used).

Planning Permissions	Total tonnes of CO2 per year to be offset	Total tonnes of CO2 over 30 years to be offset	Financial contribution from applicant, secured through s106 (£95 per tonne, tCO2)	Total available Funding within the Carbon Offset Fund
Planning Permission 1	20t	600t	£57,000	£57,000
Planning Permission 2	400t	12,000t	+£1,140,000	£1,140,000
Planning Permission 3	1000t	30,000t	+£2,850,000	£2,850,000
Total from Planning Permission	1420t	42,600t	=£4,047,000	£4,047,000
Offsetting Project	Total tonnes of CO2 per year to be offset	Total tonnes of CO2 over 30 years to be offset	Financial spend of offsetting project (£95 per tonne, tCO2)	
Offsetting project 1	30t	900t	-£85,500	£3,961,500
Offsetting project 2	500t	15,000t	-£1,425,000	£2,536,500
Total offsetting achieved	530t	15,900t	=£1,510,500	£2,536,500

Example: Remaining tonnes of carbon to be offset at 1:1 carbon offset ratio	26,700t	£4,047,000 - £1,510,500	£2,536,500 remaining in the fund
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Type of carbon offsetting projects

35. The Green Buildings Fund will be flexible and fund a range of projects to ensure optimal delivery of Fund. A set of funding criteria will dictate which projects are considered for selection, evaluation and decision. Projects must deliver the highest carbon reduction per pound spent in line with the Climate Change Strategy.
36. The Fund is solely for the purpose of reducing emissions. For an offsetting project to be funded using the Green Buildings Fund, it will need to comply with the funding criteria.
37. Funding criteria is currently being prepared but will likely require:
 - Projects to meet at least a carbon offset ratio of 1:1 or better. This means that for each £60 or £95 (if secured at that carbon offset price) spent one tonne of existing carbon emissions must be reduced
 - Not be proposed by an individual or an individual business for individual benefit
 - Provide details of carbon reduction potential and proposed monitoring
 - Be legally entitled to receive funding from the council and observe applicable limitations that apply to funds raised through S106; and
 - Comply with GLA Carbon Offset Fund Guidance and all applicable legislation
38. Once the funding criteria for offsetting projects has been agreed, it will be published on the council's website with the relevant guidance and application form.
39. One of the focuses of the Green Buildings Fund will be to fund offsetting projects that enable the retrofitting and decarbonisation of existing community buildings, schools and council housing, as this is where the biggest carbon reductions can be made and can utilise existing in-house structures to reduce administration costs take advantage potential economies of scale.
40. Some projects funded by the Green Buildings Fund may have identifiable co-benefits for the natural and built environment, and local communities. These co-benefits will be evaluated in the selection and evaluation process of projects, as a consideration when there are multiple projects which meet or exceed the carbon

offset ratio. Projects with co-benefits and that meet these criteria should be considered for funding.

41. No geo-fencing or only funding projects in specific geographical areas of the borough is proposed. This to ensure the Fund us be spent on projects across the borough wherever a minimum carbon offset ratio of 1:1 can be achieved to ensure the highest carbon emissions reduction.

Monitoring and reporting

42. Due to the range of project type and size, all proposed offsetting projects will be required to state as part of the funding application how the savings will be calculated in advance and verified following funding. An industry standard methodology such as SAP can be used to assess built environment carbon emission reductions prior to funding. With technical support from consultants, a standard methodology for the prediction and verification of carbon savings for Green Buildings Fund projects will be developed and agreed. Having a standard methodology is important for accurately assessing the effectiveness of projects to reduce carbon, and to also ensure that the monitoring and reporting is clear, accurate and transparent.
43. Further work will take place to define a clear auditing mechanism for the ex-ante and ex-post verification of offsetting projects. Some flexibility may be required for community-led projects where the exact reduction in emissions cannot be provided.
44. The reporting of potential and received payments into the Green Buildings Fund, the disbursement of the fund, and details of the projects will take place using a live monthly report. In addition to this, there will be annual data relating to the fund in the Annual Monitoring Report for the Climate Change Strategy and in GLA Annual Monitoring Report.

Supporting documents and guidance

45. A Carbon Offset Fund background report prepared for the Planning Division was completed in November 2020 by Anthesis Consultants. The report provides guidance to the council regarding the management and spending of a carbon offset fund. The Greater London Authority published guidance for London's Local Planning Authorities on establishing carbon offset funds in October 2018.

Community, equalities (including socio-economic) and health impacts

Community impact statement

46. The implementation of the Green Buildings Fund will have a positive impact for the community. Our commitment to meeting the challenge of the climate emergency opens enormous opportunity for the borough, its residents and businesses. By taking an approach that puts social justice at the centre there is an opportunity to tackle not just the climate emergency, but to reshape our borough, to create a better, fairer Southwark. The decisions we take in funding offsetting projects have the potential to deliver wider benefits, improving the quality of homes and community buildings, reducing air pollution, improving health and creating good quality green jobs.

Equalities (including socio-economic) impact statement

47. In everything we do as a council, we seek to promote equality. The implementation of the Green Buildings Fund will have a positive impact for all, including those with protected characteristics as it will reduce existing carbon emissions by funding offsetting projects across the borough.

Health impact statement

48. By funding and delivering a variety of carbon offsetting projects across the borough, co-benefits from projects may enhance the health and well-being of our residents.

Climate change implications

49. Agreeing the report recommendations will ensure that new major development that has already been granted planning permission will be net zero once the required offsetting of existing carbon emissions within the borough has taken place by spending funds secured through S106 legal agreements. This is an important Action Point in delivering the Climate Change Strategy and reducing carbon emissions within the borough and embed new processes and skills within the council to deliver these projects.

Resource implications

50. There will be a requirement for officers to administer and monitor the fund and projects through the Climate Emergency and Planning teams.

Legal implications

51. See response from Director of Law and Governance

Financial implications

52. There are no immediate financial implications due to the implementation of the recommendations of this report.
53. If required, circa 5% of the collected funds may be used for the administration costs for the day-to-day running of Fund. As of August 2021, the current Fund total equates to £2,398,421.46 with 5% of this total equating to £119,921.07 to cover administration costs if needed. There is a projected Fund total of £10,351,691.46 if all current permissions were implemented.
54. Future costs for the administration of the Fund will be addressed in further reports at the time those costs will be incurred. Any underspend on administration may be used for offsetting projects.
55. Any future projects due the implementation of recommendations of this report will be dealt by the further reports.
56. As above, it is anticipated that the type of carbon offsetting projects that will be prioritised will be capital projects provided funding criteria is met.

Consultation

57. Not applicable

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

58. This report recommends that a Green Buildings Fund is set up to collate all carbon offset funding received through S106 agreements and any other sources of funding to deliver carbon offsetting projects across the Borough.
59. On 14 July 2021 the Council Assembly approved the Climate Emergency Strategy. Officers explain that the recommendations in this report seek to build on and deliver the action points in the Council's Climate Emergency Strategy.
60. The Council's constitution was further amended to note that "Southwark Council has declared a Climate Emergency and committed to do all it can to make the borough carbon neutral by 2030. The council will protect our environment for the benefit of our residents and take steps to reduce the borough's carbon emissions in recognition of the climate emergency". The recommendations in this report are sought in accordance with this responsibility.

61. It is noted that, in accordance with Part 3F of the Council's Constitution, matters reserved for decision by the planning committee are the expenditure of funds over £100,000 of strategic importance secured through legal agreements under section 106 of the Town and Country Planning Act 1990, or any previous legislation. All projects funded by the Green Buildings Fund, which involve expenditure in excess of £100,000, will need to be referred to planning committee and officers from legal services will provide legal advice, when required, in relation to this process.
62. Officers will also need to note the individual terms of a section 106 agreement and if there are any restrictions on the expenditure of a carbon offset contribution. Any such restrictions will need to be adhered to when funds are considered for a project.
63. The Equality Act 2010 introduced the public sector equality duty, which merged existing race, sex and disability equality duties and extended them to include other protected characteristics; namely age, gender reassignment, pregnancy and maternity, religion and belief and sex and sexual orientation, including marriage and civil partnership. In summary those subject to the equality duty, which includes the council, must in the exercise of their functions: (i) have due regard to the need to eliminate unlawful discrimination, harassment and victimisation; and (ii) foster good relations between people who share a protected characteristic and those who do not. A decision has not yet been made regarding the specific projects which will benefit from the Green Buildings Fund but it is intended that everyone will benefit. The Public Sector Equality Duty will need to be considered for each project.
64. The Human Rights Act 1998 imposed a duty on the Council as a public authority to apply the European Convention on Human Rights; as a result the council must not act in a way which is incompatible with these rights. The most important rights for planning purposes are Article 8 (respect for homes); Article 6 (natural justice) and Article 1 of the First Protocol (peaceful enjoyment of property).
65. The introduction of this Green Buildings Fund is not anticipated to have any detrimental impacts on a particular group or to breach the provisions of the Human Rights Act 1998.

Strategic Director of Finance and Governance (CE21/048)

66. This report is requesting cabinet to approve a number of recommendations relating to the Carbon Offset Fund as reflected in the report. Background and full details are contained within the main body of the report.

67. The Strategic Director of Finance and Governance notes that the carbon offset amounts are collected under S106 agreements from developers into a Carbon Offset Fund maintained by the council to fund carbon offsetting projects in the future. It is noted that there are no immediate financial implications arising from this report and the costs of maintaining and managing the Carbon Offset Fund will be financed within the 5% of the fund set aside for administration expenditure.
68. The strategic director of finance and governance expects the use of the Carbon Offset Fund for future projects will be subject to formal reports with financial appraisals, including identifying the revenue or capital resources for any new commitments.
69. Staffing and any other costs connected with this report to be contained within existing departmental revenue budgets.

Other officers

N/a

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Flowchart of the projects for the Green Buildings Fund

AUDIT TRAIL

Cabinet Member	Councillor Helen Dennis, Climate Emergency and Sustainable Development	
Lead Officer	Juliet Seymour, Planning Policy Manager	
Report Author	Tom Buttrick, Team Leader, Planning Policy	
Version	Final	
Dated	7 October 2021	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		7 October 2021

