

Climate Emergency Finance – Background Information

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For: Environment and Community Engagement Scrutiny Commission

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Background

1. The council declared a climate emergency in 2019 and said it will do all it can to make the borough carbon neutral by 2030. The council has now developed and published a climate strategy and action plan which sets out the work that needs to be done and the immediate priorities for the council to start reducing carbon.
2. As part of developing our climate strategy and action plan, the council commissioned experts from Carbon Descent and Anthesis to carry out work to assess the scale of the challenge and the cost of meeting our ambition. This work demonstrates that as well as investing our own resources, Southwark will require considerable government investment and will need to find ways to leverage money into the borough to support not just the council, but businesses, institutions and residents. The scale of the challenge is huge. We estimate that the cost will be around £3.92bn in capital expenditure, supported by additional revenue funding.
3. The council's strategy outlines the challenge that we face and the steps we can take. We are clear that without major government investment we are limited in what we can deliver. We also recognise that with the scale of investment that is needed not just in Southwark but across the country, Government will not provide all the funding that is required. We therefore need to be looking for new and innovative ways of raising finance.
4. Potential investment or funding streams include, but are not limited to, the council's carbon offset fund, HRA funding, central government grants, revenue and capital funding from the GLA or TfL and various funding bids across the public, private and charity sectors. There is currently no core grant, revenue or capital, provided by central government to local authorities to work addressing the climate emergency.
5. We therefore welcome the review that the Scrutiny Commission is undertaking and look forward to receiving their recommendations.

Current Funding Streams and Financial Approach

6. The council is already investing in tackling climate change. We have created and funded a climate team which is leading the council's climate response. In addition there is a reserve fund of £2m to pay for revenue projects. The council has also allocated £25m for climate change capital projects. There are other

capital sources in the council including the Green Buildings Fund and the Decarbonisation Fund.

7. The council's Green Buildings Fund has been established using money from carbon offset to improve buildings in the borough with a focus on decarbonising community buildings, schools and social housing. The first grants from that have now been awarded and we plan to open the fund for public bids in 2023.
8. Most of the resource that the council has allocated to tackling the climate emergency is not held within these funds. How the council chooses to spend its overall resource will have the largest impact on climate emissions. For example, around 80% of the council's own emissions are from procurement. Therefore what and how we procure will have by far the largest impact on our own emissions.
9. The council is also making other major capital investments which are not primarily to tackle climate change but will have an impact. For example, the council's investment in its housing stock will have an impact on emissions. How well we insulate homes, the type of heating we provide, and the materials we use will all have a significant impact on emissions.
10. This year's budget process did, for the first time, try to assess the impact of budget decisions on climate. Through the budget setting process, officers have considered the climate implications of the proposals that have been submitted for consideration. This has enabled the council to consider whether the changes that are made to the budget will have a positive or negative impact on the council's overall emissions.
11. This is the first time that the council has made a line-by-line assessment of all proposed budget lines for climate impact. As this approach was developed, we looked at best practice from other local authorities and found no other council that had developed, or was developing, a climate change impact analysis for this purpose. As such we are at the forefront of this work, and will develop the approach further for future years.
12. While the council is using its budgets to tackle the climate emergency, without considerable government investment it will not be possible to become carbon neutral and so lobbying is a central part of our response to the climate emergency. The council will call on the government for the required financial and political resource to achieve our target including for a Green Homes Investment Fund at the required scale. The Social Housing Decarbonisation Fund, whilst welcome, does not come close to what is required, especially for a council such as Southwark which is the largest social landlord in London. Government funding too is often short term, making planning and long term strategic investment challenging.

Southwark Green Finance

13. The Council Delivery Plan commits the council to: “launch Southwark Green Finance, to create new ways for local people and businesses to invest in making our borough net zero”.
14. There are various products which have been trialled in other local authorities. Officers are preparing a paper for the Cabinet Member which sets out green finance options and ways that the council could take this process forward. Officers are due to brief the cabinet member in Q1 of FY2023/24.
15. A few councils have launched various types of climate bond to raise capital which can be invested in schemes to tackle the climate emergency. Recently, Lewisham, for example has launched a “Climate Action Bond” which is an investment model which allows residents to invest in projects to benefit the community and receive a return on their investment. They aim to generate around £1m to invest in projects such as retrofitting local buildings and improving energy infrastructure.
16. The council can borrow money at good rates through the Public Works Loan Board. In scoping the options for the council of alternative green finance models, officers need to consider what additional benefits alternative models have to justify the resource required to set them up and manage them.

Funding Opportunities

17. Various funding opportunities have become available in recent years. Government funding has been through two major funds – the Public Sector Decarbonisation Fund (PSDF) and the Social Housing Decarbonisation Fund (SHDF).
18. These government funds can be used to carry out works on public buildings and council housing to reduce carbon emissions. Both funds are competitive with local authorities invited to bid for government grant.
19. Both grants are resource intensive in terms of reporting, and satisfying the funder that we are meeting the terms of the fund. In deciding whether to apply, we have had to consider whether these grants are a better form of funding than either using the council’s own capital fund or borrowing additional capital.
20. The council would welcome a long term funding approach, where there was secure long term funding for councils to carry out the retrofit work that was required, rather than a bidding process with councils competing against each other for limited resources, with often resource intensive reporting mechanisms in place.
21. Recent waves of funding include the following, including the total size of the fund:
 - a. PSDF – phase 3b - £1.425bn

- b. SHDF – wave 2.1 - £800m
- c. Green Heat Network Fund - £288m over 3 years
- d. Net Zero Living Pioneer Places - £2m

22. There has also been funding available from the GLA. These are all individually interesting sources of funding, but are not on the scale needed to make a major impact on the borough. Recent examples including:

- a. Mayor's Grow Back Greener Fund - grants of £10k-£50k
- b. Re-wild London Fund - £850k total – with grants of £10k-£15k for small projects and up to £150k for larger projects

23. The council has been successful in bidding for grants. This includes:

- a. Strategic Development Fund - £2.75m across a tri-borough area to respond to the retrofit and green skills gap.
- b. PSDF – £1.3m – decarbonisation of the councils operational estate
- c. Low Carbon Skills Fund - £30k
- d. £16m Veolia bid to bring a low carbon heat network to a new area of Southwark.
- e. £1.77m from the Environment Agency on flood alleviation

24. We work with partners in bids that other organisations are putting forward. We are working with three universities on programmes that they have secured funding for which area all related to tackling climate change. We are also working with partners on bids to the UK Shared Prosperity Fund and currently exploring a pan-London bid on retrofit.

25. While there is money available through grants, the section above shows that these are relatively small sums of national investment given the scale of the challenge. In applying the council has to decide whether a grant is the best way to obtain money, or whether there are other ways to invest. It also needs to consider the officer resource expended on applying for small grants, considering the return on that investment of time and resource.