

REPORT TO: AGMA EXECUTIVE BOARD

REPORT OF: CHARLIE PARKER

DATE: FRIDAY 28th JUNE 2010

SUBJECT: GREATER MANCHESTER – DELIVERING A LOW CARBON ECONOMY

1. RECOMMENDATIONS

It is recommended that the AGMA Executive:

1. Endorse the Low Carbon Economy Delivery Plan. *[Executive Summary attached to this report, full document circulated separately as an Appendix]*
2. Agree the Work Programmes as set out in the Plan, noting that the proposed Programme Board (in collaboration with the Joint Investment Group) will need to agree the detailed investment strategy for each programme as funding opportunities arise.
3. Agree to establish the Low Carbon Centre of Excellence as the delivery arm of the programme and to support in principle proposed AGMA funding of £2.25M over five years.
4. Receive a further at a future meeting identifying in detail the resources available to support the COE that have been identified as a result of the review of existing AGMA expenditure and the release of embedded capacity from within authorities.

2. BACKGROUND

There is now substantial evidence that the challenge of moving Greater Manchester towards a low carbon future presents significant economic opportunity. The Greater Manchester 'Mini Stern' report put a figure of £20 billion on that opportunity.

In recognition of that opportunity, AGMA Executive in November agreed to support the creation of the Greater Manchester Low Carbon Economic Area as an outcome of the city region negotiations with the previous Government. Since that time intensive work has been undertaken to put together a business plan for the implementation of the LCEA. The business plan – the Greater Manchester Low Carbon Economy Plan - is the subject of this current report.

The Plan was endorsed by the Environment Commission at its meeting in May 2010 and it will continue to guide and oversee the delivery of the Plan on behalf of AGMA.

Discussions were held with Leaders during May 2010 and there was in principle support for the creation of specialist capacity through the establishment of a Low Carbon Centre of Excellence and a recognition that AGMA itself – as part of the current review of its existing financial commitments- would need to identify direct funding that could complement that which should be obtained from external sources.

3. FINANCING THE PROGRAMME

The Plan has been developed against the backdrop of the current uncertainty surrounding the future of many publicly funded programmes. Such uncertainty will persist while the Government reviews and then publishes its commitments in the autumn. For that reason the financing options

for the work programme are not all fully developed in the form of detailed option appraisals for investment.

However, the broad assumptions that have been made with regard to the financing of the programme have been tested with potential investors. These include:

- International banks, the European Investment Bank (EB), Energy Companies and potential private investors. All of whom have made it clear that Greater Manchester can, by working as ten local authorities, maximise its ability to attract funding from them. The challenge is to develop and bring together portfolios of projects across Greater Manchester to make them attractive to investors who are looking to provide funding at scale.
- Clear opportunities for securing significant European investment into the programme – ERDF funds for an initial programme of social housing retro fit have been obtained, work has been carried out to maximise the potential for the Jessica fund to both invest in and take advantage of the work programmes and a bid has been made for funds under the ELENA programme to support the creation of a Low Carbon Centre of Excellence (see below).
- Discussions have been held with the HCA in the context of their single allocation to Greater Manchester and the specific element of that programme that might support residential retrofit. Low Carbon projects are also identified within the pipeline for the new NW Jessica fund
- An opportunity to secure the necessary investment in other areas of the programme – skills, business support, supply chain management and support for innovation – is being discussed with key partners and will result in a series of specific public commitments on the part of those agencies to resource the programme.

Therefore there is confidence that with the support of the new Centre of Excellence and the work of the officer programme team significant sums of capital investment, private and public, can be secured which will support Greater Manchester's retrofit programmes, including:

- A significant proportion of the estimated £5.5BN needed to support the residential retrofit programme set out in the Plan
- Commencing a mass retrofit of town halls ,other public buildings and commercial properties , with the objective of delivering substantial economies of scale
- Work on supporting associated energy infrastructure projects

The COE will clearly need to grow incrementally towards the optimum size identified in the Plan as resources (financial and people) can be identified The total cost of the investment in the Centre of Excellence over 5 years had been estimated at 750K per annum or 3.75M over five years. With the prospect of securing funds from the EU and elsewhere, it is estimated that AGMA would need to invest in the region of 450- 750 K per annum to establish and staff the Centre.

4. THE OPPORTUNITY AND THE CHALLENGE

However maximising this opportunity for Greater Manchester will demand a scaling up of activity and the development of projects into large portfolios for market investment. This will require a new and innovative way of working on the part of AGMA, individual authorities and partners

To date the Plan has been assembled by a small team of officers and external support, drawing upon key people across Greater Manchester. However, if the investment opportunities and GVA growth targets are to be achieved that there will need to be an increase in the skills, capability and capacity available in relation to low carbon. In particular there needs to be a sharp focus upon what is needed to practically implement new ways of financing and delivering projects.

The options for delivering the programme were analysed in the context of the constraints upon public spending and the availability of other funding. The outcome is a proposal to support the delivery of the programme through the creation of a Low Carbon Centre of Excellence. This Centre will in essence become the investment delivery arm of AGMA's low carbon work programme with the initial focus being on retrofit, but with the potential for the expertise that is secured being available for transport, energy and other low carbon projects.

The critical areas where the COE would provide specific additional benefit and realise economies of scale include:

- Developing new and innovative private finance investment models that are market ready and can drive the programme forwards
- Developing and securing funding for portfolios of energy and retro fit projects that are market ready
- Designing prototype and standardised legal and contractual models for new retro fit and energy projects that mitigate the need for each district and project to do this individually.
- Providing programme and delivery capacity for the whole low carbon area and identifying new opportunities to deliver increased GVA
- Using the vehicle of the COE to bring in partner organisations and agencies whose investments and activities are critical to the delivery of the programme but which sit formally outside of the AGMA family.
- Developing capability just once in one place and leveraging that support on request across the Greater Manchester.
- Creating a hub into which staff from local authorities, the universities and partners could be seconded for fixed periods and to allow for the acquisition of new skills and building knowledge.

The Plan identifies a number of ways in which such a small specialist body might be supported including :

- By releasing embedded capacity from within AGMA where possible (the work to identify the contribution that can be made in this way is already underway and is being led by the Business Management Group).
- Securing funds from external bodies – a bid has already been submitted to the ELENA fund with outcomes expected early in 2011.
- Utilising technical and support funding that can be obtained at the margins of specific investments.

5. CONCLUSION

Recognising the necessity for extra investment to be made for the programme to be successfully implemented, the Executive is being asked to endorse the Plan and agree:

- That Environment Commission officers input directly into the review of AGMA investment priorities currently being undertaken to ensure that the requirement to support the Centre of Excellence is a significant and integral part of that exercise.
- To consider a report at a future meeting that identifies how any resources and funding that can be allocated to the Centre of Excellence can be drawn down.

Greater Manchester's Low Carbon Economic Area for the Built Environment (LCEA)

Joint delivery Plan (JDP) – Final Version.

EXECUTIVE SUMMARY

[The Full document is being circulated as an Appendix to this report]

'Red brick to green brick' – Greater Manchester's transition to a low carbon economy

How Greater Manchester's low carbon economic area for the built environment will transform our homes and buildings to cut emissions, create jobs, boost productivity and bring about economic growth.

1. What will the Plan Achieve?

There is now substantial evidence that the challenge of moving Greater Manchester towards a low carbon future presents significant economic opportunity. The Greater Manchester 'Mini Stern' report put a figure of £20 billion on that opportunity.

In 2010 an independent survey indicated that the low carbon supply chain across Greater Manchester already had a market value in 2008/09 of £4.4 billion, employing over 34,000 people across 1,900 companies. That analysis suggests that the low carbon economy in Greater Manchester is already worth over £4bn turnover p.a. and is expected to grow organically by 4% per annum.

Building upon the analysis and evidence the ten Greater Manchester local authorities have come together under the leadership of the Greater Manchester Environment Commission to develop a combined programme that aims to accelerate the pace at which the existing buildings of Greater Manchester can be retrofitted so as to create jobs, business growth and productivity improvements.

The Greater Manchester Low carbon Delivery Plan will build upon the LCEA designation negotiated with the previous Government. It was the only one of the eight previously designated LCEA's to be developed and designed by local authorities themselves, through their recognising the absolute necessity of scaling up levels of investment and activity to make significant progress in the area of building retrofit. The approach that Greater Manchester has adopted has already attracted a huge amount of interest and potential investment opportunities are already being discussed that can be developed into practical large scale programmes and projects.

2. The Background to the Delivery Plan

The Greater Manchester Strategy states that by 2015 "Greater Manchester has established itself as a world-leading City region in the transformation to a low carbon economy". Undertaking building retrofit at scale to contribute to this transformation will require:

- access to significant financial resources to ensure that a large scale residential and commercial physical retrofit can be undertaken.
- supply chain mobilisation to meet the increase in demand, with particular benefit to Greater Manchester and the North West
- the creation of a suitably equipped workforce with the potential to increase its skills level and create a pathway towards the higher skilled jobs that will also be needed.
- growing and exploiting the substantial innovation, research and development capability of Greater Manchester.

3. What will the Plan deliver?

- **Jobs:** an independent survey identified that in 2008/09 Greater Manchester employed 34,120 people across the environment technology, goods and services sector, which included those employed on the low carbon agenda within the built environment. Under the high growth scenario outlined in the Plan an additional 34,800 jobs in the built environment sector, would be created, giving a total of 68,920 new jobs in the sector. There are of course further opportunities in this growing area of the national and international low carbon economy beyond Greater Manchester.
- **GVA:** it is estimated that the additional GVA generated by the programme by 2015 would be £1.4 billion against a baseline business as usual forecast of £0.9 billion.
- **Carbon Emissions:** Between 2010 and 2015 the high intervention programme if successful would reduce Greater Manchester's CO2 emissions from existing buildings by an additional 1.8 tonnes over and above what would be achieved through business as usual, raising the total figure for CO2 savings from existing buildings during that period to 6.1 M tonnes.

4. How will the Programme be financed?

The programme is not supported by a specific allocation of Government funds and its delivery will depend upon Greater Manchester's ability to attract and deploy private investment in new and innovative ways ahead of the UK market as a whole.. The Plan aims to catalyse and shape that market through private and public investment and deliver jobs and growth while creating the necessary longer term market conditions to make significant reductions in CO2 over the next 20 years and beyond.

Talks have already been held with the European Investment Bank and other private investment institutions and projects are being actively developed with a number of authorities that if scaled up in sufficient quantity across Greater Manchester could become attractive for such investors.. Discussions have been held with the HCA in the context of their single allocation to Greater Manchester and the specific element of that programme that might support residential retrofit. Low Carbon projects are also identified within the pipeline for the new NW Jessica fund

However maximising this opportunity for Greater Manchester will demand a scaling up of activity and the development of projects into large portfolios for market investment .This will require a new and innovative way of working on the part of AGMA, individual authorities and partners

The programme identifies how through this new way of working it will be possible to unlock a range of new investment opportunities including:

- In social housing (which makes up 25% of the residential housing stock in Greater Manchester) securing finance from the Homes and Communities Agency and seeking funding from European programmes. Through close working with a Greater Manchester consortium of RSL's, a potential pipeline of £140m of schemes has already been identified. With support from the proposed Centre of Excellence districts and RSL's will be able to take this pipeline and prepare a portfolio of social housing projects for both HCA and private sector investment.
- In the private residential sector, through the fast and early deployment at scale of national programmes such as Pay-as-you-Save and Feed in Tariffs.
- In the public sector - through local authorities and other bodies such as hospitals and universities working together to assemble portfolios of properties that can allow private investment opportunities that are becoming available through energy companies and others to offer up-front capital investment on the basis that there is an apportionment of any savings generated.
- In the commercial sector working to overcome some of the existing difficulties to allow for investment to be made that can realise a rate of return while meeting capital costs.
- Working through the Greater Manchester Energy Group to make sure that the deployment of low-carbon energy infrastructure complements and contributes to the outcomes of the LCEA .

The very recent experience in Greater Manchester with the successful Waste PFI deal shows how through nine authorities working together efficiencies and savings can be generated, jobs created and 'state of the art' facilities introduced that could not be procured by any one district acting alone

5. What is needed to deliver the Programme?

The Plan has been assembled by a small team of officers and external support, drawing upon key people across Greater Manchester. However, if the target outcomes are to be achieved that there will need to be an increase in the skills, capability and capacity available in relation to low carbon. In particular there needs to be a sharp focus upon what is needed to practically implement new ways of financing and delivering projects.

The options for delivering the programme were analysed in the context of the constraints upon public spending and the availability of other funding. The outcome is a proposal to support the delivery of the programme through the creation of a Low Carbon Centre of Excellence. This Centre will in essence become the investment delivery arm of AGMA's

low carbon work programme with the initial focus being on retrofit, but with the potential for the expertise that is secured being available for transport, energy and other low carbon projects.

The business case demonstrates that the Centre of Excellence will allow for the fast development and deployment of new funding and investment opportunities at an appropriate scale and thereby create cost savings arising from these economies of scale, the avoidance of duplication and the creation of prototypes and standardisation arrangements to minimise transaction costs for districts.

The Centre of Excellence is seen as having three layers of activity:

- a core of dedicated ,specialist staff supporting the Greater Manchester low carbon programme
- a flexible staff resource comprising secondments from local authorities and partner organisations and other staff operating from their existing work places on specific low carbon tasks
- a virtual information and knowledge-sharing hub

The critical areas where the COE would provide specific additional benefit and realise economies of scale include:

- Developing new and innovative private finance investment models that are market ready and can drive the programme forwards
- Developing and securing funding for portfolios of energy and retro fit projects that are market ready
- Designing prototype and standardised legal and contractual models for new retro fit and energy projects that mitigate the need for each district and project to do this individually.
- Providing programme and delivery capacity for the whole low carbon area and identifying new opportunities to deliver increased GVA
- Using the vehicle of the COE to bring in partner organisations and agencies whose investments and activities are critical to the delivery of the programme but which sit formally outside of the AGMA family.
- Developing capability just once in one place and leveraging that support on request across the Greater Manchester.
- Creating a hub into which staff from local authorities, the universities and partners could be seconded for fixed periods and to allow for the acquisition of new skills and building knowledge.

The COE will clearly need to grow incrementally towards the optimum size identified in the Plan as resources (financial and people) can be identified. However there is a need for investment in the Centre identified as being £3.75 in total over five years. A bid has already been submitted to the EU under the ELENA programme for 1.5M Euros for 3 years (0.5M p.a.), and there may be further funding opportunities under other technical assistance programmes in the future. AGMA itself is undertaking an audit of the people

and skills it can release to work within the Centre and is also committed to reprioritising its own expenditure to invest in the Centre.

6. What are the opportunities and challenges?

The Plan sets out a tough but exciting challenge that requires steady progress to be made over a number of years. The LCEA has already attracted a significant amount of attention and discussions are already underway with potential investors and partners who want to commit to the programme .

However, unless that interest can be turned into a firm set of projects and programmes at scale, ready for market deployment there is the risk of losing an opportunity for Greater Manchester to position itself as a national and international place to do business in the emerging low carbon market.

There are a number of specific challenges:

- Creating new and innovative private investment streams of a significant size to accelerate the pace of retrofit to provide the necessary level of stimulus to the local economy. Greater Manchester will be at the forefront of developing these new models and will not simply be able to replicate the success of others. This demands a systematic approach to overcome the current failure of the market to put in place such investments organically.
- Stimulating demand from business, public sector bodies and individual householders for retro fit works – and the availability of simple and effective funding is critical.
- Aligning investment in jobs and skills with the increased demands for retro fitting work
- Fostering innovation and R&D to capitalise on the advantage that we will have from being a UK front runner in this area
- Working at a Greater Manchester level to scale up activity to attract investment and align support skills and business while making sure that the delivery of projects is through districts working with their appropriate local partners

7. What Are the Next Steps?

It is imperative that having made significant progress while drawing up the delivery plan, that there is no loss of momentum and that new capacity is put in place to capture the significant opportunities that are already beginning to emerge across Greater Manchester.

The formal governance arrangements will be put in place that can allow new projects and programme to emerge and be managed effectively; the new officer team needs to be out in place so that Greater Manchester can then exploit those opportunities and get major retrofit programme started on the ground to build confidence in the five year programme. Even in the current recession there is real opportunity for the low carbon sector to be a

significant source of new GVA growth even during very difficult times for the economy more generally.

So the next immediate steps are critical and include:

July 2010 onwards – work with all districts to build understanding of the Plan and identify the opportunities for investment through working across Greater Manchester

July 2010 onwards – strengthen and develop links with potential investors and identify tangible opportunities for the Centre of Excellence to develop immediately it is up and running

July 2010 onwards – work to identify resources that be allocated to support the creation of the Centre of Excellence

August 2010 – agree Plan with Government and get formal sign up of major local partners

August 2010 - Formal governance mechanisms introduced that can drive and deliver the Programmes outcome – formally launch Plan

Summer 2010 – continue to work to seek investment in the Plan through the emerging JESSICA fund

September 2010 – Programme Board agrees a fully developed project plan for the next five years

September 2010 – outcome of ERDF bid and implementation of first major RSL programme

Summer/Autumn 2010 – subject to outcome of Government spending review, agree with HCA and other funding bodies 3 year investment strategy to support the Plan

October 2010- Centre of Excellence starts work

Autumn 2010 – work with Government on the development and deployment of schemes for investment in residential retrofit in the private sector

Autumn/ Winter 2010 – go back to European Central Bank with outline of scheme portfolio to attract EIB investment

Winter 2010/2011 – Development and implementation of first major public sector retrofit schemes with local authorities and partners