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**Subject:** Building Energy Efficiency Programme (BEEP) - Gateway B (Business Case)  
**Report No:** Public Item 2.4.1  
**Meeting date:** 16th September 2009  
**Report to:** LDA Board  
**Report of:** Peter Bishop; GD Design, Development & Environment  
**Key Theme:** 2. Climate Change  
**Programme:** 4. Energy and waste

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**Confidentiality Status:** This document will not be treated as confidential.

## 1. Recommendations

### 1.1 The Board is asked to:

Approve the Gateway B business case for the Building Energy Efficiency Programme for £9.5 million, all of which is LDA funding (£2 million in 2009/10, £6.0 million in 2010/11 and £1.5 million in 2011/12).

**To Note:** The budget requirement sought in 09/10 has been allocated within the Board approved 09/10 Corporate Investment Business Plan. Whilst post 09/10 budget requirements (which have yet to receive Board approval) have been considered as part of the current business planning exercise, it should be noted that budgetary requirements in future years may be subject to further budget revisions through the Scrutiny process in order to address the over-programming issues within the Energy and Waste Programme. However, as this is a key project within the programme delivering Mayoral priorities, it is likely that such revisions will be kept to a minimum.

## 2. Context

2.1. The Building Energy Efficiency Programme (BEEP) has been developed by the London Development Agency (LDA) to contribute directly to the Mayor's 60% carbon dioxide reduction target. It will do this by working directly with public sector organisations to help them reduce the carbon dioxide emissions resulting from the operation of their estates, estimated at about 4 million tonnes per annum, through the retrofitting of energy efficient technologies.

2.2. The programme is also designed to address the lack of finance available to drive carbon dioxide emission reduction programmes by establishing investment mechanisms to help fund energy efficiency projects for public sector buildings; one of these, the London Green

Fund, will ultimately provide investment to support the delivery of a range of environment programmes for London.

- 2.3. There are a number of other energy efficiency projects that the LDA are also delivering: Green 500, Better Building Partnerships and Homes Energy Efficiency Programme; that are also aimed at reducing London's carbon dioxide emissions related to existing buildings. Where appropriate these programmes will work together, for instance there are public sector members of both Green 500 and Better Building Partnership that will hopefully use BEEP to implement their energy efficiency retrofitting programmes.

### 3. **Project Narrative**

London emits about 44 million tonnes of carbon dioxide a year and public sector buildings are a significant contributor to that, emitting as much as 4 million tonnes. The Mayor has committed to an ambitious CO2 emissions reduction target of 60% by 2025 and this programme aims to contribute to this by reducing London's CO2 emissions by 30,000 tonnes a year by 2012 and as much as 300,000 tonnes a year by 2025.

The Buildings Energy Efficiency Programme (BEEP) is designed to support public sector organisations to bring forward extensive retrofitting programmes for their estates to simultaneously reduce their energy bills and the carbon dioxide emissions from their buildings by retrofitting energy efficient technologies.

The two main barriers to delivery of energy efficiency retrofitting in the public sector are 'lack of internal capacity and expertise' and 'lack of access to finance'. This programme has been developed to address each of these barriers and consequently has 4 main streams of activity:

1) Procurement of a 'Design and Build' framework panel of expert energy management organisations – this will form the delivery mechanism for the programme in the form of Energy Service Companies (ESCOs). Public sector organisations will then procure an ESCO from this framework panel to design and deliver their retrofitting programmes. Overall budget allocation £200,000;

2) Establish a Project Management Office (managed by the LDA) – its function is to manage the overall programme and, specifically in the early years, to pro-actively recruit public sector organisations to the programme and then support them to develop and deliver their retrofitting programmes. Overall budget allocation £600,000;

3) Procure expertise to help the LDA set up a London Green Fund and appoint a Fund Manager to manage the Fund - This London Green

Fund will have a funding stream set up specifically to fund BEEP projects and approximately £8 million will be placed into this funding stream to provide investment finance for early adopters of the programme. Overall budget allocation £8.5 million made up of £500,000 to establish fund and £8 million to invest in BEEP projects;

4) Financial support to procure expertise to develop an 'off-balance sheet' financing model – this will then be used to support the wider roll-out of BEEP by procuring a 'Design, Build and Finance' framework panel of ESCOs that has the ability to not only design and deliver but also finance the retrofitting activity for their public sector clients. Overall budget allocation £200,000.

The BEEP is based on an energy performance contracting model. An energy service company (ESCOs) guarantees a set level of energy savings - therefore financial saving - over a period of years. This guarantees a future income stream to fund investment in the energy efficiency improvements and as such makes the programme cost neutral for the organisation, usually within 8 years. The GLA Functional Bodies, led by the LDA, have tested this innovative model and the LDA are now looking to roll it out to the rest of the public sector in London. The LDA will do this through the establishment of a framework panel of approved energy services companies, pre-agreed contracts and defined deliverables. This will help public sector organisations avoid lengthy and complex procurement processes for each building undergoing energy retrofitting activity.

The London Green Fund will provide an investment mechanism for funding environmental programmes in London designed to reduce CO2 emissions and BEEP will be one of the specific programmes supported by it. There will be about £8 million placed in the fund for investment in BEEP projects to accelerate implementation of retrofitting activity in the public sector. The aim of the London Green Fund is to establish additional funding for climate change initiatives by leveraging the financing power of the private sector to support delivery of London's climate change goals. The Fund will seek to accelerate investment in climate change programmes to bring forward the timescales for their delivery and ultimately the achievement of London's climate change goals by providing investment opportunities in a structured and focussed portfolio of climate change related programmes.

BEEP will ultimately aim to retrofit 1750+ public buildings in London by 2025. This would cover up to 8,000,000 m<sup>2</sup> of property and deliver CO2 savings of up to 300,000 tonnes of CO2 but will require an overall investment of at least £400m.

### **Actions from the Investment Committee Meeting**

- 1) Officers to ensure clear performance review milestones are set throughout the project lifecycle to ensure the projected returns are achieved – *A detailed project plan has been developed for BEEP and performance reviews will take place at each of the key project milestones to ensure that the project is achieving its objectives. A project delivery plan (referenced in Section 7 - Other Documents) has been developed for the programme and will be regularly reviewed, updated and developed as the programme goes into the delivery phase.*
- 2) Subsequent Gateway C submission to include further detail on the means of measurement and a clearer emphasis on the projected return on investment – *These sections will have a greater level of detail included in any subsequent Gateway C submission.*

### **Programme timeframe:**

- 1) Establish the Project Management Office – November 2009;
- 2) 'Design and Build' Framework Panel selected – November 2009;
- 3) Early adopters start procuring from the 'Design and Build' Framework Panel – January 2010
- 4) Develop the appropriate structure and governance required for establishing the London Green Fund – September 2009 to February 2010;
- 5) Gain Central Government (Central Project Review Group) agreement to set up the London Green Fund – November 2010 to March 2010
- 6) Develop an 'off-balance sheet' financial model to be used as part of the proposed 'Design, Build and Finance' Framework Panel for the programme – March 2010;
- 7) Establish the London Green Fund – March 2010

A delay in making a decision at this meeting would result a delay in the timeframes for the programmes listed above and could result in missing projected spend profiles. It could also significantly erode the confidence established in the programme with partners and stakeholders.

## **4. Consultation with the Mayor's Office**

- 4.1. There has been no Mayoral directions received in relation to this project but there has been extensive consultation with the GLA, Environment Advisor and Environment Team, and the Functional Bodies in its development as it is seen as an important programme for helping London meet its CO2 reduction targets.

## 5. Approval Requirements

- 5.1. The attached workbook has been fully appraised by the Corporate PMO and has been signed off by the Legal, Risk, Procurement and Finance Teams. Further comments can be found at section 10.1 of Appendix 1.
- 5.2. Change to the budget profile - The overall project budget remains the same (£9.5 million) but the spend profile for this project has been altered since the Investment Committee endorsed the project and recommended that the Board approve it. The budget profile for the 2<sup>nd</sup> and 3<sup>rd</sup> years of the project has been changed in response to revisions that have been made to the budget allocated to the Corporate Investment Business Plans subsequent to the Investment Committee's decision on 23<sup>rd</sup> July 2009. The table below illustrates how the budget profile has changed:

	2009/10	2010/11	2011/12	Project Total
Investment Committee budget profile	£2 million	£7.3 million	£0.2 million	£9.5 million
LDA Board amended budget profile	£2 million	£6 million	£1.5 million	£9.5 million

This change in budget profile has been presented and recorded in the project workbook brief to avoid retrospectively updating the Gateway B workbook that was endorsed on 23<sup>rd</sup> July 2009.

## 6. Appendices

- Appendix 1 – Workbook 1
- Appendix 2 – Workbook 2

## 7. Background documents

- Project Delivery Plan - Doc #3153831

# Report approval checklist

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**Group Director(s):** Peter Bishop; Group Director Design, Development and Environment  
**Head of/Director(s):** Martin Powell; Director Project Delivery  
**Report originator(s):** Simon Wyke; Senior Strategy Officer - Environment  
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**This checklist must be completed and should state the name of the person who has signed off this coversheet and the appended workbook. Please click on the relevant box to select it.**

	<b>Yes</b>	<b>No</b>
Approved Director of Finance and Performance or nominee (please state): Fiona O'Reilly ; Management Accountant - Design, Development and Environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Approved by Director of Law and Governance or nominee (please state): Frank Mandarino; Principal Solicitor	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Approved by Group Director (please state): Martin Powell; Director Project Delivery	<input checked="" type="checkbox"/>	<input type="checkbox"/>