

## Greater Manchester Combined Authority

Date: 28 July 2023

Subject: Local Area Energy Plan – Strategic Outline Business Case

Report of: Councillor Ross, Portfolio Lead for Green City Region and Harry Catherall,  
Portfolio Lead Chief Executive for Green City Region

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### Purpose of Report:

The purpose of this paper is to provide an update on the Strategic Outline Business Case (“SOBC”) completed since the GM Local Area Energy Plan was approved in September 2022, and seeks approval for the recommendations listed below. The paper includes proposals to leverage significant investment into the region and sets out the strategic imperative and proposed approach to deliver the outcomes from the GM Local Area Energy Plan.

### Recommendations:

Leaders are requested to:

1. Note the paper and the proposed approach to delivering the outcomes from the GM Local Area Energy Plan.
2. Approve the investigation and development of outline business cases to accelerate inward investment and delivery.
3. Endorse the development of regional delivery structure, operating model and required capacity.
4. Endorse the need for additional dedicated resource to support development of new commercial and finance solutions, the approach to which will be set out in a further paper in relation to further work following agreement to the Strategic Outline Business Case.
5. Approve GMCA submitting and acting as the accountable body for a circa £5m bid to Innovate UK Net Zero Living: Pathfinder Places, to support delivery of the above, with delegated authority to the Leader Portfolio holder, Chief Executive and Treasurer to finalise the bid, receive and defray funding if successful.

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# Equalities Impact, Carbon and Sustainability Assessment:

Impacts Questionnaire		
Impact Indicator	Result	Justification/Mitigation
Equality and Inclusion	G	The LAEP SOBC aims to accelerate the deployment of low carbon measures across the region, which may lead to increased benefits for residents e.g. increased air quality, mitigated energy costs etc Accelerate the deployment of low carbon measures across the region, which may lead to increased benefits for residents e.g. increased air quality, mitigated energy costs etc The aim of the LAEP is to inform all walks of life from policy makers to communities
Health		
Resilience and Adaptation	G	Accelerated transition towards carbon neutrality will ensure a more resilient and prosperous city region The proposal seeks to reduce the environmental impact of our city regions communities, buildings and businesses.
Housing	G	The LAEP SOBC if implemented will support the affordability through the lens of running costs identifies areas of land that could be used to support renewable generation, where growth is not an option identifies the scale and priority areas for retrofitting of energy efficiency measures
Economy	G	The LAEP SOBC if implemented requires cr£65bn of investment including BAU across the region, potentially supporting local jobs The LAEP SOBC if implemented in full requires cr80,000 construction and skilled operatives to ensure delivery is achieved.
Mobility and Connectivity	G	The deployment of the required low carbon technologies will require enhanced connectivity and smart operation e.g. Demand Side Response / flexible service provision. The LAEP requires increased smart EV charging infrastructure to support our transition
Carbon, Nature and Environment	G	The implementation of energy efficiency measures and removal of gas boilers and replaced with other forms of low-carbon heating would reduce emissions associated with heating and
Consumption and Production		
Contribution to achieving the GM Carbon Neutral 2038 target		The LAEP provides a clear pathway to meeting carbon neutrality in 2038 from a low carbon perspective, when combined with wider environmental projects
<b>Further Assessment(s):</b>	Equalities Impact Assessment and Carbon Assessment	
 <b>Positive impacts overall, whether long or short term.</b>	 <b>Mix of positive and negative impacts. Trade-offs to consider.</b>	 <b>Mostly negative, with at least one positive aspect. Trade-offs to consider.</b>
		 <b>Negative impacts overall.</b>

## Carbon Assessment

### Overall Score



Buildings	Result	Justification/Mitigation
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New Build residential	N/A	
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Residential building(s) renovation/maintenance		The LAEP SOBC aims to retrofit our building stock to a level where the region can be carbon neutral through, a range of low carbon heating measures to meet our varied need sets out a fabric first approach as no regret measure identifies priority areas for the deployment of solar PV
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New Build Commercial/Industrial	N/A	
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### Transport

Active travel and public transport	N/A	
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Roads, Parking and Vehicle Access	N/A	
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Access to amenities	N/A	
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Vehicle procurement	N/A	
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### Land Use

No associated carbon impacts expected.				
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## Risk Management:

*This is paper has been informed by both national and local data sources and/or current polices.*

## Legal Considerations:

*The contents of this Paper are not legally binding. As such, the aim of this document is to support and guide activities.*

## Financial Consequences – Revenue:

*The Paper identifies a circa £1m consequence for GMCA revenue budgets that are already allocated to this type of activity, if recommendations are approved and actioned. Any subsequent actions requiring funding will be the subject of separate approvals.*

## Financial Consequences – Capital:

*The Paper identifies £0 financial consequences for current GMCA capital budgets, if recommendations are approved and actioned. Any subsequent actions requiring funding will be the subject of separate approvals.*

## Number of attachments to the report:

1 - GM Local Area Energy Plan, Strategic Outline Business Case

## **Comments/recommendations from Overview & Scrutiny Committee**

N/A

## **Background Papers**

GM Local Area Energy Plan, Strategic Outline Business Case

## **Tracking/ Process**

Does this report relate to a major strategic decision, as set out in the GMCA Constitution?

Yes

## **Exemption from call in**

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?

No

## **GM Transport Committee**

N/A

## **Overview and Scrutiny Committee**

Will be considered in July 2023.

# 1. Overview

- 1.1 Greater Manchester ('GM') has set an ambitious target to achieve net zero by 2038. This will require a step-change in both scale and pace of low carbon asset delivery. GM has the track record of delivery of complex and innovative programmes to meet key policy objectives. GM now has a stronger platform to deliver on net zero through the enhanced data, planning and deeper level of devolution recently announced.
- 1.2 The GM Local Area Energy Plan ('LAEP'), a UK regional first, provides a strong foundation, providing a set of suggested geo-spatial interventions for the energy infrastructure changes needed to enable GM to become carbon neutral by 2038. The LAEP analysis indicates that the GM investment required to deliver the 2038 target is:
  - A total investment of circa £64.4bn, which includes 70% business as usual.
  - Excluding business as usual, an investment of circa £19.2bn will be required.
  - Of the £19.2bn required investment, circa£12.5bn is within the local public sector's significant control or influence.
- 1.3 It is this £12.5bn which has formed the scope of the Strategic Outline Business Case ('SOBC'), which has been developed as the next step from the LAEP work.
- 1.4 To deliver this investment Greater Manchester needs to innovate and simultaneously deliver across the asset classes identified in the LAEP at a neighborhood, District and GM-wide level; and engage innovatively with the private sector market in a range of commercial structures across the lifecycle of delivery.
- 1.5 The SOBC identifies how the region can leverage significant private sector investment in this sector. However, there would be a need for the public sector to go first, giving confidence to the private sector to investment. We are confident that we can create new ways of delivering net zero to match the scale of need at a city region level and, in doing so, can act as a trailblazer in creating approaches and models that can be replicated elsewhere nationally. This will however need a new approach to achieve the ambition.

## 2. Strategic Imperative

- 2.1 Greater Manchester's ambitious, science-based target aims to achieve carbon neutrality by 2038, 12 years ahead of the national net zero target of 2050. Launched in March 2019, the GM Five-Year Environment Plan ('Five-Year Plan') set out how this will be achieved and associated actions. The Five-Year Plan established the vision of each of the ten Districts transforming their infrastructure, homes, and buildings to be part of a smarter local energy system.
- 2.2 Reaching carbon neutrality is more than just an environmental issue. It will drive a range of specific and wider economic benefits, providing the opportunity to:
  - accelerate significant economic growth.

- positively impact the lives of people in GM and the wider region through high quality jobs in green industries.
- improve places to live and work.
- deliver better health outcomes; and
- help to address inequalities, that have persisted in the city region for too long.

2.3 By leading at scale and pace, GM has an opportunity to take a national lead in reinvigorating regional manufacturing, supply chain and skills development as well as accruing the benefits of net zero as early as possible.

2.4 Decarbonising the city region will provide GM with an unparalleled opportunity to address inequalities within the city region, in addition to supporting national efforts to level up across the UK.

2.5 GM has an important role to play in support of the UK's net zero ambitions, in part, because of its scale, and therefore its relative impact. However, it is our advanced position compared to other UK cities in terms of net zero delivery, coupled with our track record of navigating complex development programmes successfully, which enable GM to act as a model for other towns, cities, and city-regions to follow. The existence of our Growth Locations programme will enable GM to imbed practical delivery as part of wider growth and development that will be a large benefit in achieving GMs ambitions.

2.6 GM can equally demonstrate how to move from commitment through to planning, implementation, delivery of decarbonisation goals and, in doing so, meet wider levelling up objectives. There are other factors which strengthen GM's position relative to its peers, including strategic alignment with key ecosystem stakeholders, such as the energy network operators.

2.7 The required LAEP investment that is predominantly in the local public sector's control or influence totals £12.5bn. This investment is spread across projects and programmes in five asset classes:

- Generation and Storage
- Decarbonisation of Public Sector Buildings
- Social Housing Retrofit
- Heat Networks/Heat Zones, and
- EV Charging Infrastructure

2.8 There has been significant success to date in acquiring over £200m in capital grants, to support GM's 2038 ambition, progressing associated feasibility studies and projects across a range of net zero projects. Whilst substantial funding to date has been welcomed, it is recognised as being insufficient when compared to the actual LAEP requirement and therefore does not always allow for a strategic approach. Additionally grant funding of this nature tends to lead to piecemeal investment, which doesn't achieve the critical mass, or pace, needed to make a meaningful impact to the regional carbon targets.

2.9 Whilst carbon emissions are reducing, based on the latest carbon emissions data, GM is tracking above where it should be to meet its carbon goals. Achieving carbon neutrality by 2038 is very challenging and, will require:

- a significant scale up of activity.
- major local policy interventions.
- investment by government; and industry, and
- both technology and business innovation.

2.10 Without meaningful intervention – at a scale to match the challenge in hand – it is apparent the market will not deliver the scale of investment required to enable GM to be carbon neutral by 2038.

2.11 Delivering the regional scale of ambition in relation to net zero and in the timescales agreed has not been done before in the UK. There are several challenges, ranging from funding requirements and a need for innovative commercial models through to industry capacity that will need to be overcome if Greater Manchester is to achieve its objectives. GM, working closely with central government and the private sector, will need to innovate and act as a pathfinder across a range of issues.

### **3. Challenges GM will Address**

3.1 As part of the development of the SOBC, GMCA engaged with 15 organisations reflecting a representative spread of developers, investors, contractors, and other interested stakeholders. The purpose of the engagement was to explore opportunities and barriers to delivering GMCA's carbon neutral targets.

3.2 There were clear themes from the market feedback of a strong level of interest in the opportunities arising in Greater Manchester. The engagement also highlighted a high degree of confidence in Greater Manchester to deliver, given its track record more generally and the need for a joined-up approach to net zero carbon delivery across Greater Manchester.

3.3 There were however a number of barriers which currently undermine the ability of the private market to deliver the net zero target without intervention. These include,

- lack of clarity over the forward roadmap and pipeline across Greater Manchester.
- the need for joined up leadership and resourcing across Greater Manchester.
- the need for stronger policy levers in certain areas (e.g., heat zoning, planning requirements regarding energy generation etc);
- without some form of public sector investment or risk sharing many of the projects are not currently viable from an investment perspective; and,
- issues surrounding an immature skills and supply chain.

3.4 The Given the scale and range of asset classes involved, a single all-encompassing commercial model would not be desirable or achievable.

### **4. Approach**

4.1 It is proposed that a focus on developing a range of co-ordinated, fit for purpose commercial models for delivery is commenced, reflecting the types of projects that it will deliver across the five asset classes and the model for delivery (e.g., neighbourhood through to region wide approaches).

- 4.2 Given the scale and, range of asset classes involved, a single all-encompassing commercial model is unlikely to be desirable or achievable.
- 4.3 As a region, GMCA and Districts have longstanding experience of delivering a range of complex projects. The SOBC highlights the potential to further innovate our current commercial approaches, consider how we may seek to structure future commercial models to reflect the differing delivery phases of project life cycle from concept development, through to construction and then operation.
- 4.4 Through these commercial models, it is proposed GM will seek to leverage as much private capital as possible in the delivery of carbon neutral target. However, it is important to recognise that the nature of the asset classes that the public sector is in control of or can influence directly, is likely to require a significant level of public sector grant funding to achieve viability. As noted earlier in the paper, based on the current understanding of the market and the anticipated levels of commercial return that would be expected by investors, it is estimated that in the region of half of the £12.5bn capital investment set out in the LAEP will need to come from public sector sources between now and 2038.
- 4.5 Delivering at the scale and pace required will require strong collaborative working between GMCA and all Districts, as well as sufficient funding and resource to meet the scale of the programme of work required.
- 4.6 There is a recognition within the region that there is a need for a step-change in the capacity across the public sector in Greater Manchester to deliver. However, this resource should also act as a catalyst for similar capacity building amongst the private sector who will be fundamental to much of the development and delivery of the net zero projects.
- 4.7 In the short term we have the opportunity to access revenue funding to develop our approach around some of the focus areas through the IUK bid. However, this will not fund all the necessary activity and there will be an additional need for further work to be undertaken in parallel to compliment the work set out in the proposed Innovate UK bid, should it be successful.

## **5. Opportunities/risks**

5.1 The key opportunities include:

- Provision of a clear investment strategy and direction to support the acceleration of our pathway to 2038.
- Ensure GM retains its place as a recognised leader in carbon neutral delivery at scale.
- The establishment of an investment pipeline with clear delivery models will provide the market with confidence to develop solutions and infrastructure which support our transition towards carbon neutrality.
- Create more green jobs (employed and or self-employed) from local companies and from inward investors keen to capitalise on GMs leading position.

- Retaining more of the £5bn which leaves the region every year to pay for energy, e.g., the current Public Sector Decarbonisation Schemes result in over £2m of saving per annum, and as energy prices increase, so do the savings.
- Investing in local renewable generation provides long term returns on capital currently ~ 9% pa over the lifetime of the asset. Note, not all of the projects that need to be delivered will generate a return.
- Encourage inward investment, innovation, research, and development in net zero.
- Supports the Business Board to enable SMEs and major industry to rapidly transition to net zero.
- Using public procurement mechanisms to stimulate change (direct and indirect).
- Viewing all our capital, revenue, and other investments through the lens of the Climate Emergency.
- Provides evidence to support concerted and coordinated lobbying of Government and other influencers to effect change outside of our control.

## 5.2 The key risks include:

- Business as Usual is currently failing to meet the region's low carbon ambition.
- The biggest risk we face over the next couple of years is getting back on track for 2038 and then remaining on track as measures become harder to achieve.
- There is currently insufficient capacity to deliver the transition across both internal officers and wider local low carbon goods and services supply chain.
- Insufficient local funding levers to accelerate delivery.
- Commercial / Public perception being one of a lack of an identified pipeline.
- Failure to provide a clear coordinated direction and steer on how we achieve our carbon neutrality ambition.
- Lost economic output and thus gain.

## 6. Next Steps

- 6.1 The SOBC will be/has been socialised with Directors of Place, Chief Executive Investment Group, and wider district colleagues. Through this and further socialisation of the SOBC outcomes a range of focus areas will need to be agreed e.g., Heat Decarbonisation, Electric Vehicle Infrastructure, renewable generation etc. A further paper will be brought forward recommending the focus areas for further work and how it will be progressed and funded.
- 6.2 Once agreement has been achieved on the focus areas, a governance structure, resourcing, and procurement needs for external support will need to be developed and agreed.
- 6.3 The ongoing work will inform a GM collective £5m bid with Manchester and Oldham to Innovate UK ('IUK') Net Zero Living Places: Phase 2 (subject to approval) In September 2023.
- 6.4 The Innovate UK funding call is focused on the development and delivery of solutions which overcome the non-technical barriers to net zero delivery. The proposed bid will include:

- a neighbourhood-based scheme integrating different net zero technologies around a unifying development in Manchester City Council's Wythenshawe scheme.
- a District level pilot in Oldham focused on a District-wide community-based approach; and,
- seek to develop of the next stage of the SOBC, moving towards an Outline Business Case for the priority areas identified from within the SOBC, to enable an informed programme of activity with particular focus on commercial models.

6.5 At a regional level, a focus on more strategic approaches to delivery across the region will be needed, for example in areas such as heat networks and retrofit. Each of these will provide valuable information and lessons learnt to inform the overall investment strategy and GMCA will support the co-ordination and sharing of the learning across Greater Manchester. E.g., Bolton, Oldham, Stockport, Rochdale, and Trafford are all progressing detailed project designs for heat networks, which may underpin future heat zones identified within the LAEPs.

6.6 Aligned to the above specific IUK funding submission, which will be announced in October 2023 and commence in January 2024, it is proposed that a clear GMCA/District structure be established to enable a coordinated approach to development. This structure would aim to ensure the limited resources available are maximised, duplication of effort is removed, and delivery is accelerated.

6.7 Subject to the review and establishment of a GMCA/District development, delivery structure, suitable capacity to support across the core competencies of investment, procurement, legal and programme delivery will need to be created to maximise our first mover status set out within the SOBC. While the IUK bid may fund some work around this there will be a need for further resource that will be considered as part of the further report to the CA.

6.8 There will be continued engagement as part of the Devolution deal negotiations and wider governmental department dialogue in respect of both enabling policy and funding asks.

## **7. Financial Implications**

7.1. Delivery of the SOBC next steps will require further investment to complete the Outline Business Cases alongside wider pipeline development. The proposed bid to Innovate UK will not fund all of the activity required and is subject to a successful bid.

7.2. In the short to medium term, an additional £1m from retained business rates has been identified to support the next steps of delivery of the SOBC, from Outline Business Case to the creation of viable Financial Outline Cases for each area of the to be agreed focus areas.

7.3. The RBR funding identified could be utilised:

- in part as match funding alongside a Innovate UK Net Zero Living Pathfinders (Phase 2) bid, therefore enhancing the scope (noting activity would be delayed until January 2023);

- as a means to commence the next steps at the earliest opportunity regardless of grant intervention;
- or a hybrid approach which seeks to ensure both time and available funding is maximised.

7.4. The activity to be funded will be subject of a further paper albeit it is considered likely that the allocated Retained Business Rates alongside the IUK funding, should it be successful, will still be insufficient to make the true step change in delivery needed to meet GMs low carbon ambitions.

## **8. Recommendations**

8.1. Recommendations are set out at the front of this report.