



WMCA Board

Date	15 September 2023
Report title	Business Energy Advice Service
Portfolio Lead	Environment & Energy - Councillor John Cotton
Accountable Executive Director	Ed Cox, Executive Director Strategy, Inclusion & Net Zero email: ed.cox@wmca.org.uk
Accountable Employee	Paul Edwards, Head of Economic Delivery email: paul.edwards@wmca.org.uk
Report has been considered by	Investment Panel - 24 July 2023 Investment Board - 14 August 2023 Executive Board - 23 August 2023 Mayor & Portfolio Leads Liaison - 4 September

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

- (1) Approve £24,609,772 of pilot funding to support a regional decarbonisation advice and grants programme for businesses. This will be jointly funded by DESNZ and DLUHC, providing circa £9m revenue funding for energy assessment audits and roadmaps for SMEs in both the industrial and commercial sectors across the ITL 1 area of the West Midlands alongside £5m capital funding for energy reduction grants. An additional £10.5m for grants from DLUHC will be provided in the WMCA Area.
- (2) Note that the DESNZ BEAS business case has been approved by the DESNZ Investment Committee and by Treasury. DLUHC have confirmed that they will use the same business case for their funding stream, timelines for release of that funding are still to be determined. Ministerial sign off on the Section 31 Letter is expected next week.

- (3) To approve the delegation of contracting and payments to the Director of Employment, Skills, Health and Communities, the WMCA S.151 Officer and the Director of Law and Governance or Chief Executive to accept the funding awarded from DESNZ and DLUHC, subject to their review of the finalised terms and conditions of this funding. These conditions should not be materially different to those expected as documented throughout this report, and in particular should contain conditions acceptable to WMCA in respect of conditions precedent, clawback and eligible expenditure.

1. Purpose

- 1.1 The Department of Energy Security and Net Zero (DESNZ) and Department for Levelling Up (DLUHC) have strongly indicated to the WMCA that funding is available for an energy efficiency programme within the West Midlands. This is national funding for pilot activity in the West Midlands with a view to expanding the programme nationally if it is successful. The objectives of this project are to support WMCA and regional efforts to overcome market failures inhibiting energy-exposed West Midlands manufacturers and commercial businesses (in the ITL 1 West Midlands region) from mitigating the impacts of energy cost rises and the transition to net zero.
- 1.2 The purpose of this report is to confirm that the WMCA Board is happy to receive this funding.

2. Background

- 2.1 The West Midlands has a higher proportion of energy exposed businesses than any other UK region. These businesses are threatened by both rising energy costs and the need to transition to net zero through firm level investment. Targeted public investment can reduce or remove barriers to changing business practices and processes that prevent that transition and support continued regional competitiveness and growth.
- 2.2 To address these barriers to growth, business resilience and net zero investment, DESNZ, DLUHC, working with WMCA, propose a programme that will target 4000 energy efficiency audits of sites within the West Midlands and provide access to subsidised sub-metering and capital grants for energy efficiency investments. Of the £24.6M, £9.1M will support these energy audits. Capital grants of £10.5M in the WMCA geography and £5M in the wider ITL1 region will be available to firms who have received an audit and will be aimed at interventions that reduce firm level energy consumption.
- 2.3 The benefits this programme will produce relate to both the capital and revenue investment, the programme will generate a conservative estimate of 332GWh of energy savings; a NPSV of £24m and a SBR of 1.95. The best-case scenario has the potential to deliver substantially higher net benefit of £115m, a SBR of 5.66 and an energy demand reduction of 631.75 GWh¹.

¹ Economic Case, FBC Pg 12

3. Delivery Model

- 3.1 Delivery will be across the ITL1 geography of the West Midlands although the majority of the delivery (and all of the DLUHC funded aspect) will be within the WMCA area. The programme is aligned to the WMCA regional Decarbonisation Net Zero programme, supported by UK Shared Prosperity Fund, and similar programmes across Worcestershire and the Marches, Warwickshire, and Staffordshire. The primary reason for taking this approach and, as advised by Matthew Rhodes as Chair of the Industrial Energy Taskforce, is the practical challenge of delivering 4,000 energy audits in the WMCA geography by March 2025. It is the view of all delivery partners that this is a challenging target across the ITL1 geography and unachievable solely in the WMCA geography.
- 3.2 The project must be completed by March 2025 and, from a national government perspective, has additional objectives of collecting data on the efficacy of different types of intervention in different types of company from across the highly diverse West Midlands industrial demographic, and thereby identifying the most effective way of delivering public policy to improve the resilience of UK supply chains to global energy price shocks.
- 3.3 It is proposed that the WMCA will act as the accountable body for the BEAS Programme delivered across the ITL1 geography in the West Midlands. This replicates the successful model in place for Made Smarter – West Midlands.
- 3.4 The funds will be delegated by the WMCA to delivery partners across the region with overall project governance and assurance provided through a three tier governance model shown in Section 6 of this document. The governance model will include all relevant stakeholders, including DESNZ and DLUHC and representation from LA partners.

4. Strategic Aims and Objectives

- 4.1 The objectives of this project are to support WMCA and regional efforts to overcome market failures inhibiting energy-exposed West Midlands manufacturers and businesses (in the ITL 1 West Midlands region) from mitigating the impacts of energy cost rises and the transition to net zero. The approach has been developed with the help of the West Midlands Industrial Energy Taskforce and responds, in part, to the recommendations of the Taskforce.
- 4.2 This programme is seeking to drive an increase in regional Energy Productivity within the West Midlands ITL1 area. It will reduce energy input required as % of regional GVA and in addition increase in productivity from new investment in new processes. The programme will:
 - Deliver 4000 energy efficiency audits which provide significant data to inform future policy. Energy Audits support businesses in quantifying and benchmarking their emissions (audits of the energy used by their buildings, industrial processes and operations), identify cost-effective energy saving measures, set validated emissions targets and embed low carbon strategy within the company.

- Deliver up to £15.5m in capital grants (Revenue expenditure funded from capital under statute (REFCUS)) to subsidise business investment in reducing energy demand. Grants will be for the energy efficient replacement and/or upgrade to existing industrial or commercial processes or buildings.

4.3 This will lead to an:

- Increase in regional Energy Productivity by reducing energy input required as % of regional GVA,
- Increase in productivity from new investment in new processes,
- Supply chain energy resilience
- Protection of skilled jobs and creation of new skills jobs
- Increased regional Energy Productivity: £24m reduction in energy consumption across all sectors without impacting output GVA,
- SMEs reduce their energy costs,
- SMEs reduce their carbon emissions,
- DESNZ utilises data to “learn lessons” –specifically with the aim of developing future policy interventions suitable for SMEs, in the pursuit of Net Zero.
- More resilient supply chains
- shows the outputs per area, by programme and by funding route.

4.4 The following table shows the outputs per area, by programme and by funding route to reach the objective of 4000+ audits.

Table 1: Outputs by area and Programme

Delivery Partner ²	Region	Funding Route	Standard Audit	Energy intensive Audit	TOTAL Audits
Aston University (Lead) coventry City Council, Black Country Consortium	WMCA	BEAS	1310	120	1430
Worcester CC	Worcestershire and Marches		180	20	200
Warwickshire CC	Warwickshire		100	0	100
Staffordshire CC	Stoke and Staffs Audits		240	0	240
HVMC	WM ITL1		0	190	190
Aston University	DNZ Audits	SPF and other routes	1437	60	1497
Worcester CC	BEEP Audits		200	50	250
Warwickshire CC	Warwickshire Audits		85	0	85

² Details of delivery partners can be found in Section 3 of the Full Business Case.

Staffordshire CC	Green Solutions		60	0	60
TOTAL AUDITS			3612	440	4052

4.5 Eligible businesses for audits and grants will be:

- SMEs, as defined as an organisation that has less than 250 employees and a turnover of less than £50 million or balance sheet total of less than £43 million, from all sectors (excluding agriculture, forestry and fishing).
- Businesses need to have been running for at least 12 months (established company) and the assessment will focus on existing processes and/or buildings.
- The target is for a 50:50 split between commercial and industrial sectors with a good mix of micro, small and medium businesses, and a diversity of sectors.

4.6 Each delivery partner will be responsible for marketing to their business base and will be supported by a marketing manager based within the WMCA.

4.7 The £10.5m DLUHC funding in the WMCA area will be delivered by one or more Local Authority subject to capacity and capability (please note that DESNZ have requested one lead LA). It is expected that we will engage with a single LA as lead representing a consortia of partners.

5. Financial Implications

5.1 Note that both the DESNZ BEAS business case has been approved by the DESNZ Investment Committee and Treasury. DLUHC have confirmed that they will use the same business case for their funding stream, timelines for release of that funding are still to be determined. Ministerial sign off on the Section 31 Letter is expected next week.

5.2 As the funding will be from DLUHC and DESNZ, there is a risk that the conditions and timelines may not align, therefore it is understood, that the two projects will in practice be considered together by HMT, DLUHC and DESNZ.

5.3 Once the funding from DESNZ and DLUHC is confirmed the conditions will be reviewed to ensure contain conditions are acceptable to WMCA in respect of conditions precedent, clawback, VAT and eligible expenditure. These conditions should not be materially different to those expected as documented throughout this report, and in particular should contain conditions acceptable to WMCA in respect of conditions precedent, clawback and eligible expenditure.

5.4 All funding will be drawn down in arrears and based on evidenced spend reducing the risk to WMCA finances.

5.5 The project will run until 31 March 2025, with exact timings on funding and delivery to be agreed. Although timescales are tight no expenditure will be incurred at risk in advance of confirmation of both sources of grant funding.

5.6 The grant of £24,609,772 requested is a maximum and any inflation has been accounted for and managed within the programme.

5.7 The table below shows the funding required to deliver 2160 audits and £15.5m in grants. A further 1892 audits are being provided by the sub regional programmes mostly funded through SPF³ but supported by £5m in grants from the BEAS programme. The table shows the most up to date figures.

5.8 This funding is aligned to other similar energy efficiency programmes which in the main are funded through SPF. It is by aligning these programmes with BEAS that the target of 4,000 audits will be achieved.

Table 2: Financial Summary

		23/24			24/25		
	TOTAL	DESNZ RDEL	DESNZ CAP	DLUHC CAP	DESNZ RDEL	DESNZ CAP	DLUHC CAP
Audit Project Management	£700,107	£233,369	£0	£0	£466,738	£0	£0
Audit Delivery	£4,851,716	£1,617,239	£0	£0	£3,234,477	£0	£0
Grants Project Management	£2,325,000	£325,000	£0	£0	£1,500,000	£0	£0
Grants	£15,500,000	£0	£1,666,667	£500,000		£3,333,333	£10,000,000
Contingency	£296,575	£102,192	£0	£0	£194,383	£0	£0
Marketing	£378,600	£189,932	£0	£0	£189,932	£0	£0
WMCA Costs	£557,774	£185,925	£0	£0	£371,849	£0	£0
TOTAL	£24,609,772	£2,653,024	£1,666,667	£500,000	£6,456,748	£3,333,333	£10,000,000

Governance

6.1 Programme governance will be undertaken by both DESNZ, DLUHC and WMCA. Governance will require collaboration between the three bodies, but DESNZ and DLUHC governance will focus on overarching sponsorship and accountabilities, while the WMCA will focus on directly managing the relationship with delivery partners.

6.2 With three bodies involved in the management of the pilot, there are three senior responsible officers:

- **DESNZ SRO:** Overall accountability for DESNZ contributions to programme.
- **DLUHC SRO:** Accountable for DLUHC contributions to the programme.
- **WMCA SRO:** Responsible for WMCA FBC and upholding delivery plan.

6.3 Below is listed the governance framework for the pilot to meet these objectives, beginning with the highest tier in scope:

³ More information can be found in Appendix 10 of the FBC

Project Sponsor Board (*meeting quarterly*) – *governance objective 1.*

Led by DESNZ, with membership from WMCA and DLUHC.

This body will discuss the progress of the pilot, information and deliverables, and potentially discuss any monitoring and evaluation insights. Further, DESNZ risks will feed into this forum, and WMCA may escalate their own risks as appropriate.

Operations Group (*fortnightly*) – *governance objective 2.*

Led by WMCA, with optional and expected observational attendance from DESNZ/DLUHC.

This forum will meet regularly, as it will be the primary forum for project managers to discuss progress with delivery partners against the milestones as agreed with DESNZ [and DLUHC] in the delivery plan. This group will ensure the pilot is delivering and quickly identify operational issues and performance from sub-contractors. All delivery partners will be part of this operations group.

Region Wide Steering Group (*meeting quarterly*) – *governance objective 3.*

Led by WMCA and partners, with membership from DESNZ and DLUHC. The group will include representation that covers all ITL1 delivery areas and includes business representation. This will include County Council Local Authority Officers, representatives from local delivery partners and well as sub-contractors such as energy auditors.

In this forum, delivery partners who will report to the group to feedback 'on-the-ground' intelligence to support the WMCA in its oversight of operational delivery arrangements.

- 6.4 The programme will form part of the Business Growth West Midlands service to all West Midlands businesses. As such, reporting on outputs and outcomes of the programme will be to the Economic Growth Board, as with all regional business support programmes. More information on the governance of this Programme can be found in Section 5 of the Full Business Plan.

7. Legal Implications

- 7.1 WMCA has a power of general competence under section 1 of the Localism Act 2011 in relation to economic development and regeneration which will support this function.
- 7.2 The Legal Team will provide ongoing advice in relation to the commissioning, procurement, and delivery of the project as well as advice on subsidy control.
- 7.3 All delivery partners will need to have formal legal agreements in place and all legal Agreements must be formally completed before any payment is released.
- 7.4 An MoU will be put in place between DESNZ and the WMCA for the delivery of this programme based on a proposal for £14,109,772 being submitted to them. Funding will be issued under a Section 31 letter.
- 7.5 A similar MoU will also be in place with DLUHC based on a submitted proposal for £10.5m funding will be issued under a Section 31 letter.

8. Procurement Implications

- 8.1 The Procurement Team will engage with and work with the Client in relation to all commissioning and ongoing procurement matters.

8.2 Delivery partners have been selected due to experience in providing similar programmes, provision of joint funding through SPF and other funding routes.

8.3 Procurement advice has confirmed that all delivery partners can be awarded direct awards without the need for an open tender process this approach has been used due to the tight time frames.

9. Single Assurance Framework Implications

9.1 This project makes use of new funding to the WMCA. The business case is largely written around the use of this funding rather than focusing on the delivery of the project, although it does explain what the project is and how it will be delivered. This is particularly the case for objectives, social value and monitoring, where there are weaknesses in ensuring that the benefits and objectives are successfully achieved and recorded.

9.2 There are lessons to be learned for the future in ensuring that the full picture of project delivery is adequately captured, and not just the immediate need to spend grant money on defined outputs. Without this full picture, there is a risk that expenditure does not achieve the 'big picture' change envisaged, and the reasons for this are not known and understood. However, in this case it is noted that much of this risk lies with government departments as the funders. It is recommended that this business case is approved.

Key Risks

- **Financial Risk:**
The programme is reliant on government department funding. Whilst it has been indicated that this funding is available, the business case has yet to be approved and the funding confirmed.
- **Delivery Risk:**
Delivery timescales are tight. Delivery consortia identified are robust and proven but there is a residual risk that delivery cannot be completed within the specified timescale.

Key Opportunities

- This programme brings additional funding in to WMCA and is aligned to strategic priorities by contributing to reducing energy use, aligned to #WM2041.

10. Inclusive Growth

10.1 There are no specific Inclusive Growth measures, but reducing energy use is a key element of the West Midlands Inclusive Growth principles.

11. #WM2041 Net Zero

11.1 WMCA declared a climate emergency in 2019 and identified a target date of 2041 by which the region should meet net zero target emissions. They also identified the need for all employees to understand the scale of the problem and take action to support climate mitigation policies. The Appraisal Team support this movement by dedicating part of the appraisal to identifying green benefits within the business case and / or suggesting improvements that the project can implement to reduce carbon emissions.

11.2 This business case will contribute towards #WM2041 by:

- Enabling and encouraging businesses to reduce their energy use and move to more efficient uses of energy.

12. Equalities Implications

12.1 The delivery partners will be tasked via the brief to ensure the businesses are diverse by:

- Making sure marketing materials are inclusive, free of stereotypes, representing a variety of people and using inclusive language.
- Reaching diverse communities to gain a wider audience.
- Promoting the programme in media outlets that reach diverse audiences, including online and traditional formats.
- Ensuring the programme is accessible to people with disabilities by providing transcripts, captions, and other accommodations.
- Providing support for an array of different and diverse businesses across the region
- The Steering Group will reflect the regions diversity and strive to be as inclusive as possible.

13. Inclusive Growth Implications

13.1 This programme is seeking to reduce energy usage and drive an increase in regional Energy Productivity within the West Midlands ITL1 area. It will reduce energy input required as % of regional GVA and in addition increase in productivity from new investment in new processes. The programme will:

- Create new employment opportunities so that they are for people from all backgrounds, including those who are underrepresented in the workforce.
- 4000 energy efficiency audits which provide significant data to inform future policy
- Grow SME's within the region and energy demand reduction for SMEs
- Develop a supportive business environment will make the region more attractive to businesses that are looking to relocate or expand.
- Encourage and support businesses to reduce their energy input. Likely to boost slow-growing businesses or those in declining industries due to energy consumption. This innovation will boost competitiveness and productivity.
- Will protect skilled jobs within businesses.
- Creating collaborative partnerships.

14. Geographical Area of Report's Implications

14.1 The programmes will be available to businesses with an operational base or registered in the seven local authorities of the WMCA and the wider ITL 1 region. WMCA will be the accountable body for delivery across the ITL1 West Midlands.

15. Schedule of Background Papers

BEAS Full Business Case

Appendix 1: Theory of Change

Appendix 2: Benefits Realisation Plan

Appendix 3: Risk Management Strategy

Appendix 5: Communication Strategy

Appendix 6: Project Delivery Plan

Appendix 7: Change Management Strategy

Appendix 8: Finances

Appendix 9: Delivery Requirements

Appendix 10: Economic Case

Appendix 11: Monthly Monitoring Data

Appendix 12: Monitoring and Evaluation Data Requirements