

SUSTAINABLE GROWTH AND ENVIRONMENT CAPITAL SCRUTINY COMMITTEE	Agenda Item No. 6
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Report of the Executive Director of Resources

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GREEN LEASES – DISCUSSION PAPER

1. PURPOSE

- 1.1 This report follows a recommendation made by the Sustainable Growth and Environment Capital Scrutiny Committee to investigate green leasing with a view to the council adopting it as a policy.

2. RECOMMENDATIONS

- 2.1 The Committee is asked to note the report and the intended actions.

3. LINKS TO THE SUSTAINABLE COMMUNITY STRATEGY

- 3.1 This report directly contributes to the objectives and outcomes contained in the Sustainable Community Strategy and, in particular, the aspiration to ‘create the UK’s Environment Capital’.

4. BACKGROUND

4.1 What is a green lease?

There is currently no agreed legal definition of a green lease. However, the intention of such a lease arrangement is to improve the sustainability of a rental building by providing a system for engagement between owners and occupiers in relation to environmental management and performance.

Essentially a green lease contains additional provisions whereby the landlord and tenant undertake specific responsibilities/obligations with regards to the environmental operation of a property. At the most basic level a green lease seeks to remove restrictions contained within a standard lease that prevent energy efficiency works taking place. More demanding green leases set specific legally binding obligations and targets to improve the environmental performance of a building that can incur penalties if not delivered. Such targets may relate to a wide range of measures including energy efficiency, waste reduction/management, water efficiency, supply chains and social and ethical considerations.

The ‘green lease’ was first developed in Australia where its use became mandatory in all Government owned and occupied buildings. Then it was expanded to the private sector around the world as a voluntary initiative.

4.2 Why should we consider green leases?

Legislation – It is likely that green leases will become more commonly adopted as legislation to deal with legally binding carbon reduction targets in the Climate Change Act 2008 and the need to adapt buildings to a changing climate become more apparent. Aspects of the Climate Change Act are beginning to force businesses to re-evaluate the way they operate properties that they either own or occupy. For example the Carbon Reduction Commitment Scheme (CRC) requires participants to report their energy consumption and pay for the associated

carbon emissions which directly puts a price tag on a buildings environmental performance.

From September 2013 the London Stock Exchange Main Market Listed Companies (c.1,400), which includes both UK and foreign companies, must report their global greenhouse gas emissions within their annual financial report. In addition, green leases help to ensure compliance with the increasingly tighter energy efficiency targets contained within Building Regulations.

Monetary benefits and reduction in obsolescence risk. Green leases should provide bottom line business benefits for both the landlord and tenant. However, market take up has been relatively low without legislative drivers. However, this is likely to change because, whilst the exact details are yet to be decided, it is anticipated from the Energy Act 2011's 'Minimum Energy Performance Standards for lettings' that buildings with an Energy Performance Certificate rated below a minimum (potentially E) will no longer be leasable after April 2018. The most current data suggests that approximately a fifth of the UK's commercial buildings will become unlettable and obsolete unless owners take active steps to improve their energy efficiency.

In line with the city's aspiration to create the UK's Environment Capital. Whilst the council is unlikely to prohibit tenants from undertaking works to their buildings that would improve overall energy efficiency entering into a green lease shows wider public support in line with this aspiration.

4.3 What are the benefits of green leases?

There is currently no obligation for green leases to be utilised by landlords and tenants and at present it is a matter for market practise and negotiation between owners and occupiers. Yet, there are a number of benefits for both parties.

Benefits for occupiers

1. Reduce operating costs.
2. Improve staff productivity and retention.
3. Meeting legislative reporting requirements including the CRC.
4. Metering to track performance to ensure most efficient use of the building.
5. Higher quality operating environment.

Benefits to owners

1. The potential to see an increased occupier demand.
2. Limit regulatory exposure.
3. Retaining asset value.
4. Attract investors.
5. Data sharing to monitor performance and ensure good practice on building use.

4.4 What are the barriers to green leases?

There are a number of barriers that are currently limiting the uptake of green leases. These include:

- Traditional adversarial landlord and tenant relationships.
- The question of who will incur costs of energy efficiency works? Owners are often unwilling to invest in improving the energy, water and waste efficiency of a building, as in many cases, the financial benefits will be reaped by the tenant through lower energy, water and waste bills. The tenant also often has little incentive to incur expenditure on a leased building or agree contributions to improvements by the landlord.
- A lack of evidence that the rental levels or capital value will increase.
- Constantly evolving and changing legislations, for example the Carbon Reduction Commitment Energy Efficiency Scheme, has raised concerns about the need to maintain as much flexibility as possible in leases.
- If buildings are already let, the landlord can only carry out alterations under the terms of the lease. In most cases the owner/ landlord does not have the ability to recover the

cost of these improvements through the service charge.

4.5 What are the options for Peterborough City Council?

Whilst it is possible for the city council to revise lease agreements with existing tenants this is likely to prove to be a long and cumbersome tasks, running the risk that tenants will refuse to sign a new agreement which may result in a decreased rental income for the organisation. With this in mind the Executive Director of Resources intends to undertake the following steps:

Firstly, develop and issue a memorandum of understanding to all existing tenants (and new tenants as they enter into leases). This would effectively act as a basic green lease. This document will make it explicitly clear that the council would not prohibit any works that would improve the energy performance of a building. The document will also offer guidance detailing how people may go about improving the efficiency of their building. For example, detailing how a tenant may access Peterborough's Energy Performance Contract with Honeywell.

Secondly, identify which of the council's assets have a low energy efficiency rating and are likely to be rented out now or at some point in the future. This will allow an assessment to be undertaken of a potential loss of income if these properties become un-rentable in the future due to changing legislation. After this analysis green leases could be negotiated on a case by case basis with individual tenants with a view to improving the overall energy efficiency rating of the building.

5. KEY ISSUES

- 5.1 There are no immediate issues relating to the proposed actions. However it is worth noting that the immediate impact this will have on the overall efficiency of the council's rental estate is likely to be minimal. Nevertheless this is a step in the right direction.

6. IMPLICATIONS

- 6.1 None

7. CONSULTATION

- 7.1 This document has been produced in collaboration with colleagues from finance, strategic property and legal. No formal consultation is required with existing tenants prior to the issue of a memorandum of understanding.

8. NEXT STEPS

- 8.1 Feedback will be shared with the relevant council departments prior to any work being undertaken. It is intended that the memorandum of understanding will be issued by the end of November 2014 and the work to identify low energy efficiency rated buildings will commence following this.

9. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 9.1 None

10. APPENDICES

- 10.1 None

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