

REPORT TO: Cabinet Member - Environmental
Cabinet Member - Regeneration
Cabinet
Council

DATE: 30 June 2010
7 July 2010
8 July 2010
8 July 2010

SUBJECT: Carbon Reduction Commitment Scheme

**WARDS
AFFECTED:** All

REPORT OF: Alan Lunt - Neighbourhoods and Investment Programmes
Director
John Farrell - Interim Head of Corporate Finance & ICT
Strategy

**CONTACT
OFFICER:** Ian Weller - Energy Team Manager Ext 4221
Kevin McBlain – Financial Management Ext 4049

**EXEMPT/
CONFIDENTIAL:** No

PURPOSE/SUMMARY:

To seek policy decisions on the operation of the Carbon Reduction Scheme, which became legislation from 1 April 2010.

REASON WHY DECISION REQUIRED:

Cabinet has delegated authority to deal with such matters.

RECOMMENDATION(S):

That Cabinet Member – Environmental

1. Notes the report and the intention to bring further reports as the scheme unfolds.

That Cabinet Member - Regeneration

1. Notes the report and the intention to bring further reports as the scheme unfolds.
2. Recommends Cabinet to change the Council's constitution to allow delegated responsibility for operation of the scheme to fall to the Head of Corporate Finance and ICT Strategy or, if a different person, the Officer acting in a section 151 capacity.

That Cabinet :

1. Agrees to recommend to full Council, a change to the Council's Constitution, delegating authority to the Head of Corporate Finance and ICT Strategy or, the Section 151 Officer, to act as the CRC Responsible person, to enable trading of Carbon Allowances using General Fund resources, and to sign off all future Carbon declarations and claims made through the Scheme to the Department for Energy and Climate Change.
2. Agrees for the first year of Carbon trading (2011/12), to adopt the approach of funding corporately, any penalty or reward arising from the CRC scheme, with a view to allowing Officers time to consider future options for the distribution of penalties and rewards. These would be the subject of a further report to Members at the appropriate time.
3. Agrees to allow Officers scope to explore the skills and support required to enable future market trading of Carbon Allowances.

That the Council:

1. **Subject to a recommendation from Cabinet, gives approval to change the Council Constitution, delegating authority to the Head of Corporate Finance and ICT Strategy or, the Section 151 Officer, to act as the Carbon Reduction Commitment Responsible person, to enable trading of Carbon Allowances using General Fund resources, and to sign off all future Carbon declarations and claims made through the scheme, to the Department for Energy.**

KEY DECISION: No

FORWARD PLAN: No

IMPLEMENTATION DATE: Immediately following the expiry of the 'call in' period for the minutes of this meeting.

ALTERNATIVE OPTIONS: The Council has no option in joining the scheme, having met the Government's entry criteria, and no legal option to designating a named 'CRC Responsible Person'.

IMPLICATIONS: Not working towards cutting the Council's Carbon Emissions through the CRC Scheme, could lead to the Council facing severe financial and legal penalties, on an increasing scale as the scheme progresses.

Budget/Policy Framework:

Financial: The Council's MTFP already includes £50k to address what is currently considered to be the maximum penalty we could incur in 2011/12 when the scheme's trading regime commences.

<u>CAPITAL EXPENDITURE</u>	2010 2011 £	2011/ 2012 £	2012/ 2013 £	2013/ 2014 £
Gross Increase in Capital Expenditure				
Funded by:				
Sefton Capital Resources				
Specific Capital Resources				
<u>REVENUE IMPLICATIONS</u>				
Gross Increase in Revenue Expenditure		50k		
Funded by:				
Sefton funded Resources		50k		
Funded from External Resources				
Does the External Funding have an expiry date? Y/N	When?			
How will the service be funded post expiry?				

Legal: The scheme imposes statutory obligations on the Council.

Risk Assessment: There are Financial risks associated with failure to reduce our stated Carbon Emissions, in the form of penalties, as well as risks associated with the trading of carbon allowances through the scheme. Other financial and civil penalties also exist for general non-compliance of the scheme regulations.

There are however, also rewards available through the scheme for good performance but these are dependent upon the Council's measurable reductions in Carbon emissions and its standing in a national League Table.

Asset Management: There will be implications in due course, particularly in relation to the Council's Accommodation Strategy..

CONSULTATION UNDERTAKEN/VIEWS

Legal and Admin Services

Children Schools and Families

Finance Department FD443 – The Interim Head of Corporate Finance and ICT Strategy has been consulted and his comments have been incorporated into this report
Neighbourhoods and Investment Programmes Department

CORPORATE OBJECTIVE MONITORING:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		✓	
2	Creating Safe Communities		✓	
3	Jobs and Prosperity		✓	
4	Improving Health and Well-Being		✓	
5	Environmental Sustainability	✓		
6	Creating Inclusive Communities		✓	
7	Improving the Quality of Council Services and Strengthening local Democracy	✓		
8	Children and Young People		✓	

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

Report to Cabinet of 4 February 2010; Carbon Reduction Commitment Energy Efficiency Scheme (CRC).

1. INTRODUCTION

- 1.1 Members may recall a detailed report brought to Cabinet on 4 February 2010, outlining the workings of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), which became legislation on 1 April 2010.
- 1.2 This further report now seeks to get approval for a constitutional change which is required to enable the Council to operate the Scheme within the law, and to discuss briefly, the treatment of potential 'Penalties' or 'Rewards' arising from it, and to update Members on developments.

2. COMPLIANCE

- 2.1 As mentioned above, the CRC became law from 1 April 2010, and all Organisations who fall under the legislation, must now formally register electronically with the Department for Energy and Climate Change (DECC), for entry into the scheme no later than 01 September 2010 and at the same time, make a first declaration of estimated Carbon emissions for the 2010/11 financial year.
- 2.2 Statute requires that the initial registration and declaration, and all future declarations and reports required to be made under the Scheme, must be co-ordinated and signed off by the 'CRC Responsible Person' (see appendix A detailing the proposed framework). In the Council, this will be the responsible Officer for Finance, and therefore the Head of Corporate Finance and ICT Strategy or Officer acting in a Section 151 capacity, who will need to be given delegated authority to perform this duty.

3. PENALTIES AND REWARDS

- 3.1 The CRC Scheme is intended to work as an incentive to Public and Private Sector Organisations to invest in energy saving initiatives and thereby reduce their Carbon footprint and associated energy costs.
- 3.2 As detailed in the earlier report to Members on 4 February 2010, the Scheme contains a 'Penalty' and 'Reward' structure, whereby 'declared' and 'actual' Carbon emissions are compared, and following consideration of the Council's actions on energy saving measures in the year ('Metrics'), a National League Table will be drawn up.
- 3.3 The proceeds from the purchase of Carbon Allowances are then to be pooled, and redistributed through the ranking system in the CRC League Table. Those who perform well will receive their Carbon Allowance payments back, plus an added reward, whilst those who do less well may end up with a shortfall on their account. It should be noted that rewards and penalties are subject to annual floors and ceilings, with +/-10% in 2011/12 rising to +/-20% in 2012/13 up to +/-50% in 2015/16. Placing in the 'League' Table, however, may be just as much dependent on the performance of others within the scheme, as from our own direct efforts to reduce carbon emissions.

- 3.4 Members will be asked in the future, to consider how the Statutory CRC rewards/penalties should be apportioned within the authority and whether a localised reward and penalty structure should exist in Sefton, allocated to both the Corporate sites and functions (including street lighting), i.e those which are managed under central management, and to those sites which are not managed directly by the Council, for example schools, but which fall within the CRC Scheme.
- 3.5 Officers on the CRC Working Group have discussed some options, which may be worthy of consideration, but these will need time to develop and bring back to Members in the future.

4. A 2010/11 POSSIBLE OPTION WITH REGARD TO PENALTIES AND REWARDS

- 4.1 Officers propose, that for the first year of CRC trading (2011/12), the Council agrees to take no action to distribute penalties or rewards across energy users, and therefore keep and fund them corporately. This is considered as an initial step, to give time for Officers to develop other options for a possible localised system of dealing with penalties and rewards. Further options would then be brought in a later report to Members towards the end of 2011.
- 4.2 Delaying the introduction of a localised system for distributing penalties and rewards gives the Council the opportunity to concentrate on the early practicalities of the statutory scheme, and to focus resources accordingly towards any future finance and carbon saving support that will be required as the scheme accelerates.

5. FUTURE ISSUES

- 5.1 Officers are currently evaluating the levels of resources (both revenue and capital), which are available towards any energy saving measures, and are very mindful that limited resources will need to be used wisely in future to ensure minimum spend for maximum payback from energy measures. Priorities will need to be carefully established as the CRC ratchets-up, and the penalties arising from the scheme rise each year as explained above.
- 5.2 The Carbon data arising from the scheme will be a valuable tool in the future, to enable a clear evaluation of energy performance across the Council's assets. Such data will enable informed decisions to be made on issues to do with future accommodation usage, and the determination of priority spending on energy schemes through the Accommodation Working Group, Technical Services Client and the Strategic Asset Management Group.
- 5.3 Similarly, the Building Schools for the Future team will need to be mindful of the potential scope for energy saving measures in new buildings, all supported and advised by the Corporate Energy Team.
- 5.4 The Energy Team are currently planning to roll out the use of Smart Meters to improve automated reading of energy consumption. As well as improving the

immediacy and accuracy of available data, this investment will assist in efforts to improve the Council's standing in the National League Table.

- 5.5 The Energy Team works with all Council sites to discuss energy issues and to assist with support and advice where carbon and water emissions are not reducing, and indeed the CRC will enable failing sites to be identified and considered for future energy saving measures. However, this is done on a priority basis due to limited staff resource.
- 5.6 Schools are the major carbon producing Council assets, and so a visit and report to the Schools Forum has taken place in June and the Energy Division Manager and the Council's Corporate Finance Department have provided an update on the CRC scheme to schools, who up to now only have a limited knowledge of its existence and operation based on previous communications as the CRC has developed.
- 5.7 Other opportunities may exist to spread knowledge of the CRC system, and these will be considered by the Council's CRC Responsible Officer.

6 FINANCIAL ISSUES

- 6.1 In respect of the Carbon Trading itself, the Council is required to purchase Carbon Allowances in advance, soon after 1 April 2011. The cost of this purchase is likely to be in the region of £450k-£500k, based on initial CO2 estimates for 2010/11, which are required to be registered with DECC by 1 September 2010. The Council's 'actual' CO2 declaration for 2010/11 will be made in July 2011 and the National League Table and distribution of Penalties and/or Rewards will be made in October 2011. At this stage, the Council will receive its money back, adjusted depending on its performance.
- 6.2 Members should note that the floor and ceiling band is +/-10% in 2011/12 and therefore the maximum penalty that the Council could face in 2011/12 is estimated to be £50,000. The floor and ceiling band increases by +/-10% each year between 2012/13 and 2015/16 to a maximum of +/-50%, and therefore based on an equivalent purchase price of £500k, this could mean a maximum penalty in later years of £250k should the Council not improve its Carbon emissions and position in the league table.
- 6.3 The Costs of Carbon Allowances are also expected to rise sharply in the future, as the need to trade on the secondary energy markets for Allowances will arise after the first phase of the scheme comes to an end in 2013/14. It is expected that Carbon Allowances will become scarce over time, and with high demand, this will only increase market prices. Current secondary market prices for carbon are around £24 per tonne, which is twice as much as the initial phase 'fixed price' of £12 per tonne. It is therefore not difficult to see how the costs associated with the scheme may rise sharply in the future.
- 6.4 In respect of the actual mechanism for conducting the purchase and sale of Carbon Allowances, trading strategies will need to be considered in the light of experience and available financial support, most probably through the Corporate

Finance Department's Treasury Group, who have considerable dealings with Financial institutions. However, should the need arise for additional market expertise, this will be brought to Members attention.

7 RECOMMENDATIONS

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