REPORT TO:	Cabinet
DATE:	4 February 2010
SUBJECT:	Carbon Reduction Commitment Scheme
WARDS AFFECTED:	All
REPORT OF:	Alan Lunt - Neighbourhoods and Investment Programmes Director Lynton Green - Acting Finance & IS Director
CONTACT OFFICER:	Ian Weller - Energy Team Manager Ext 4221 Kevin McBlain – Financial Management Ext 4049
EXEMPT/ CONFIDENTIAL:	No

PURPOSE/SUMMARY: To inform Members of the implementation of the Government's Carbon Reduction Commitment Scheme, which commences from 1 April 2010.
REASON WHY DECISION REQUIRED: Cabinet has delegated authority to deal with such matters.
RECOMMENDATION(S): That Cabinet : 1. Notes the contents of this report 2. Notes the intention to bring further reports about the progress of the scheme in Sefton as it develops.

KEY DECISION:	No
FORWARD PLAN:	No
IMPLEMENTATION DATE:	Immediate 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.

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 when the scheme's trading regime commences in 2011/12. This might be considered a worse case scenario.

CAPITAL EXPENDITURE	**2009 2010 £**	**2010/ 2011 £**	**2011/ 2012 £**	**2012/ 2013 £**
Gross Increase in Capital Expenditure				
Funded by:				
Sefton Capital Resources				
Specific Capital Resources				
REVENUE IMPLICATIONS				
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 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.

CONSULTATION UNDERTAKEN/VIEWS
Legal and Admin Services
Children Schools and Families
Finance Department – FD 304 - The Acting Finance and Information Services Director has been consulted and his comments have been incorporated into this report
Neighbourhoods and Investment Programmes Department

CORPORATE OBJECTIVE MONITORING:

Corporate Objective		Positive Impact	Neutral Impact	Negative Impact
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

1. INTRODUCTION

1.1 The CRC Energy Efficiency Scheme (CRC) formerly known as the Carbon Reduction Commitment Scheme, attaches a financial value to an environmental goal, linking true costs with a measurable Carbon footprint in a bid to drive down national Carbon emissions, as agreed within International EU and UK agreements on reducing Global Warming. It is a highly complex scheme and full understanding of it is essential to avoid future difficulties.

1.2 The CRC will pass into legislation before the end of this financial year, and is set to commence from 1 April 2010, following a lengthy consultation period, which ended in October 2009.

2. COMPLIANCE

2.1 Compliance is compulsory on all Public and Private Sector Organisations, provided they meet the criterion, of having half hourly meters using over 6,000 MW of electricity pa during the base year of 2008/9. Sefton easily met this criterion, and therefore our registration into the scheme is compulsory.

3. SCHEME DETAILS/REQUIREMENTS

3.1 The scheme encompasses all groups who are included within the Council's energy contracts, with some exceptions such as Further Education Colleges. Sefton Schools however, are included, and will form part of the Council's baseline data statement for registration.

3.2 The scheme includes, principally, all gas and electricity consumption and their relative emissions, and can allow for power generating schemes, which put energy back into the grid. Vehicle emissions are excluded at present. At least 90% of all energy consumption must be incorporated into the scheme.

3.3 The scheme falls under the responsibility of the new, Department for Energy and Climate Change (DECC) under the control of the Department for the Environment, but will be managed by The Environment Agency and all eligible Bodies must register with them, electronically, during the period April to September 2010. As lead Officer for the scheme in Sefton, control will be rest with the Finance and IS Director.

3.4 A timetable (attached as Annex A) has been drawn up by DECC for the phased introduction of the scheme. Phase 1 will run from 2010/11 – 2012/13, with Phase 2 the 'capped trading phase' running from 2013/14.

3.5 Each organisation must declare its estimate for Carbon emissions (CO2) during 2010/11, measured in tonnes. This involves gathering data on both gas and electricity usage, and converting this, using given factors, to arrive at the

Council's Carbon Footprint. This initial declaration will be critical to future rewards and penalties from the scheme.

3.6 The Energy Team are currently working with the Council's energy suppliers to gather and agree data readings from every Council site included under the scheme. This is an ongoing process, and data is kept in the Energy Team's Systemslink Energy Database system.

3.7 The data held is currently being further augmented by roll out of the an energy web portal for all Sefton Buildings, allowing site managers to enter their own readings on a regular basis. The benefits of this are two-fold a) to increase accuracy of energy/carbon data held and b) ensure accuracy of billing and flag up any problems proactively. Currently approximately 50 sites across all Directorates are linked in this way.

3.8 Estimating CO_2 emissions may be difficult and carries with it, some risk in terms of ensuring that all Council assets are included, and that initial measurements and forecasts of usage are as accurate as they possibly can be. In addition, the estimates of energy usage and carbon emissions may also be adjusted by, the forecast effects of energy efficiency schemes within the Authority. This can never be an exact science, but needs to be based on sound principals with a good trail of evidence used in the calculations.

3.9 Such evidence must be kept and will be tested periodically through an independent audit regime, to verify the declarations made. Any significant data found to be inadequately supported or missing, may see the imposition of a fine of up to £40 per tonne of CO_2 relating to the missing or unsupported data.

4. TRADING CARBON ALLOWANCES

4.1 One of the key drivers of the scheme, a trading element, applies with effect from 1 April 2011. This treats Carbon Emissions in terms of 'tradable allowances' to be bought and surrendered each year on the basis of declared and actual results.

4.2 Each year, commencing from 1 April 2011, the Council will declare its estimated position for CO2 emissions. On the basis of the declared tonnages, the Council must purchase Carbon Allowances, initially through the Environment Agency. These will be charged at a fixed starting price for the first couple of years (phase one), at £12 per tonne of CO_2.

4.3 Purchases of Allowances may be made at any time during a financial year, and it is envisaged that most Authorities will buy as they go, monitoring closely their energy usage and carbon emissions. With prices fixed at £12 per tonne CO_2, and without a limit on the number of allowances available to buy, the initial phase of the scheme may not be too problematic. In later years (phase two), the volume of available allowances will be 'capped', and it is expected that prices will increase in the future to more closely align with the secondary energy markets as the scheme moves towards an 'auction' process with bids being required to obtain allowances through DECC. Trading will also open up to allow Organisations to buy from other groups or directly through the Energy Markets in the future.

4.4 It is anticipated that special knowledge of market trading may therefore be required in later years as the scheme develops.

4.5 Further reports will be brought back to Members in respect of this element of the scheme as required.

5. NATIONAL LEAGUE TABLE AND REWARDS AND PENALTIES

5.1 Once actual results of a given year's CO_2 emissions are known, these will have to be officially declared and underwritten by the Finance and IS Director as correct and submitted in a Carbon Footprint report, along with an equivalent number of the bought allowances. Any excess allowances bought, may be banked and carried forward to the following year, or sold, as the Organisation wishes. However, this changes at the end of phase one, when all allowances must be submitted, and Organisations start from scratch.

5.2 Authorities will have until 31 July each year to declare their outcomes from the previous year. The first Carbon Return will be due on 31 July 2011, and will be in respect of the outcomes from the 2010/11 financial year.

5.3 The outcomes will then be considered by DECC, along with agreed measures known as 'metrics', which will be used to determine two things. Firstly, where the Authority will sit in a new 'National League Table' for Carbon Emissions, and secondly, how much an Authority will either be rewarded or penalised. In the early phases of the scheme, all rewards will come from the monies generated by the purchases of allowances.

5.4 Rewards or penalties will be announced, along with the publication of the League Table, in October of the same year. Amounts will then be paid back to Authorities at this time, and if penalties are incurred, organisations will be forced to fund any shortfall from their previous purchase of allowances, out of their revenue accounts. Rewards will be achieved for good results, and some organisations may expect more funds back than they paid out for allowances. The rewards and penalties however will be capped in each of the first 5 years of the scheme, and will increase incrementally, starting at +/- 10% in year one, up to +/-50% in year five. These caps will be reviewed within the first seven years of the scheme.

5.5 The allowed measurements or 'metrics' referred to above, will be used in determining League Table position and will carry different weightings in the early years of the scheme.

5.6 The first Metric, and a particularly important first year measure, is the 'early action' metric. Organisations need to demonstrate that they have either been working towards installing for example, Automated Meter Readers (AMR) in sites, thereby approving the data used in their Footprint, or that they have been working towards the Carbon Trust Standard. These early actions can improve the initial positioning of the Organisation in the League Table, but this Metric drops out after the third year of the scheme on a reducing basis. Dependant on available resource, the Council intends to roll out installation of AMR to all non-half hourly sites within 5 years, based on pilot sites to date. This again will afford far better monitoring and control of energy consumption more generally.

5.7 There is also an 'Absolute' metric which kicks in proper at year 2 of the scheme, and takes account of the energy schemes underway/introduced by the organisation, including on site generation of power. Weighting is given to what the Organisation is doing towards becoming more energy efficient and towards reducing its Carbon emissions.

5.8 The final metric is the 'Growth' metric. This metric cuts in at year 2 of the scheme, and will measure any allowed growth or savings used in the calculations of the CO_2 footprint through planned or natural changes in the Organisational structure/size etc.

5.9 The actions an organisation takes towards reducing energy consumption and to become more energy efficient could have many benefits, not least of all, good League Table positioning and the rewards this brings ; as well as reduced energy bills, as consumption goes down. In addition, lower CO_2 emissions should lead to a reduction in the number of allowances required to be purchased each year – which will become increasingly important, as the numbers and availability of allowances in the market may be in short supply and therefore highly priced in the future.

6. CONSIDERATIONS

6.1 There are some important considerations to be made for the successful implementation of the scheme in Sefton.

6.2 It will be very important for key Officers to be involved in understanding the way the new Scheme will operate, and to this end, a working group has been established involving Officers from Energy; Estates; Children Schools and Families; Legal and Finance. A diagram showing appropriate responsibilities for operating the scheme effectively is attached at Annex B.

6.3 Most of Sefton's energy costs are concentrated around schools (approx 45% of total) and Street Lighting (approx 18% of total). In respect of schools, the Government's directive is that they will be included within a Local Authority's Carbon declaration, however, the schools delegated budgets may not be used to purchase carbon allowances. These must be purchased through the Council's general fund revenue account. As they are included in the scheme, schools may be allowed to take a share of any rewards or penalties arising from the scheme, and it is therefore important that they are fully on board with the scheme to understand the implications for themselves.

6.4 The Council will need to decide how rewards and penalties are distributed, and it is anticipated that the Council's Energy Database will enable performance to be assessed by site.

6.5 An adequate carbon forecasting model will need to be built on, to encompass financial aspects, including sound evaluation of all future energy schemes to ensure these yield maximum savings on future energy bills and carbon emissions. The model will need to be continuously updated in the light of changes, if it is to be relied on as a tool for trading allowances and declaring outcomes. It must also be as accurate as possible if penalties are to be avoided in future.

6.6 The Council will also need to ensure it has the necessary skills to enable trading interventions, either through Environment Agency/DECC or via the open markets. The Council must establish a clear trading policy, to safeguard its cash resources and control any actions taken in dealing with the timing of allowance purchases.

6.7 Knowledge may be shared with other Authorities, and meetings already take place between the 5 Merseyside Authorities and Halton Council through the Energy Officers Group. As the scheme develops, there will no doubt be an infrastructure build-up of local and national expertise on offer, in support of operating the scheme, which the Council may wish to use over time. The Council already has a close relationship with The Carbon Trust, and has drawn down match funding for a number of small energy saving projects with SALIX in recent years. Such projects are now yielding savings in energy costs and reducing our carbon footprint. Schemes include thermal insulation, heating upgrades/controls, equipment controls and voltage optimisation, all of which have rapid 'payback times' of 5 years or less in most cases. Other carbon networks may be established in the future to share best practice.

6.8 The CRCS brings into play a mix of financial and reputational issues, and organisations may find themselves torn between the two, however, at a time of diminishing resources, financial aspects will no doubt carry extra weighting, and it will be quite important that all future schemes involving energy, are considered from a 'green' perspective to ensure that, where resources allow, carbon reducing projects are given some priority. This will have many future benefits through the CRCS.

6.9 The CRCS carries with it many risks, but if managed well, could benefit the Authority in the long term and help the Country as a whole, reduce its CO2 emissions. The scheme is seen as a means to drive forward real improvements in life quality and sustainability in the future, and the Council must be prepared for its introduction.

7. RECOMMENDATIONS

That Cabinet :

1. Notes the contents of this report
2. Notes the intention to bring further reports about the progress of the scheme in Sefton as it develops.