

CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

1 OCTOBER 2009

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Environment – Lead Cabinet Member – Councillor Mrs Jennie Beaumont

CARBON REDUCTION COMMITMENT

1. Summary

The Government are in the process of introducing the Carbon Reduction Commitment (CRC), a 'cap and trade' scheme for high energy users which is intended to increase energy efficiency and reduce carbon dioxide emissions.

Participation in the scheme is determined by the consumption of half hourly metered electricity during calendar year 2008. Consumption in excess of 6,000MWh requires full participation, on this basis Stockton-on-Tees Borough Council qualify and will be full participants in the scheme.

Registration to the scheme will take place between April and October 2010 with trading commencing in April 2011.

CRC requires organisations in the scheme to purchase carbon emission 'allowances' from Government. The allowances will be available at the start of the scheme at a price of £12 per tonne of carbon dioxide. On the current carbon dioxide emission figures for Stockton-on-Tees Borough Council the cost will be around £350-400k. However, for the first year only, two years allowances will need to be purchased thus an expenditure of £700k to £800k must be planned for April 2011.

The scheme is 'fiscally neutral' in that the payments received will be recycled back to participants on the basis of their performance in reducing emissions each October. Determination of the repayment is made according to the organisation's position in a league table of all participants. At the top of the league table a 'bonus' of 10% is paid whilst at the bottom a 'penalty' of 10% applies. Over a period of five years this bonus (or penalty) rises to 50%. The actual bonus or penalty payable for a given league table position is on a linear scale from top to bottom.

2. Recommendations

It is recommended that:

1. Members note the forthcoming Carbon Reduction Commitment and its impact on the Council budget and cash flow.
2. The authority to trade allowances in the CRC scheme be delegated to the Head of Finance and Assets in consultation with the Director of Development and Neighbourhood Services.

3. Members note the benefit from the Carbon Management programme in reducing emissions from Stockton-on-Tees Borough Council activities thus placing the Council in good standing regarding performance under the CRC scheme.

3. Reasons for the Recommendations/Decision(s)

1. Stockton-on-Tees Borough Council qualifies for full participation in the CRC due to consumption of more than 6,000MWh of electricity from half hourly meters in calendar year 2008.
2. CRC will have financial implications for the Council due to the need to purchase allowances for carbon dioxide emissions in advance each April and the difficulty of predicting league table position and hence repayment value to be received in October each year.
3. Delegated authority will be required to enable Council Officers to engage in the purchase and trading of carbon allowances.

4. Members' Interests

Members (including co-opted Members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (**paragraph 8**) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (**paragraphs 10 and 11 of the code of conduct**).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting considering the business is being held -

- in a case where the Member is attending a meeting (including a meeting of a select committee) but only for the purpose of making representations, answering questions or giving evidence, provided the public are also allowed to attend the meeting for the same purpose whether under statutory right or otherwise, immediately after making representations, answering questions or giving evidence as the case may be;
- in any other case, whenever it becomes apparent that the business is being considered at the meeting;

and must not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (**paragraph 12 of the Code**).

Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc; whether or not they are a Member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting (unless the interest arises solely from the Member's membership of, or position of control or management on any other body to which the Member was appointed or nominated by the Council, or on any other body exercising functions of a public nature, when the interest only needs to be declared if and when the Member speaks on the matter), and if their interest is

prejudicial, they must also leave the meeting room, subject to and in accordance with the provisions referred to above.

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CARBON REDUCTION COMMITMENT

SUMMARY

The Government are in the process of introducing the Carbon Reduction Commitment (CRC), a 'cap and trade' scheme for high energy users which is intended to increase energy efficiency and reduce carbon dioxide emissions.

Participation in the scheme is decided by the electricity consumption measured by half hourly meters during the calendar year 2008. On this basis Stockton-on-Tees Borough Council qualify and will be full participants in the scheme.

Registration to the scheme will take place between April and October 2010 with trading commencing in April 2011.

CRC requires organisations in the scheme to purchase carbon emission 'allowances' from Government. These are to cover emissions associated with electricity consumption, gas consumption and any other fuels used but specifically excludes transport. The allowances will be available at the start of the scheme at a price of £12 per tonne of carbon dioxide. On the current carbon dioxide emission figures for Stockton-on-Tees Borough Council the cost will be around £350-400k. However, for the first year only, two years allowances will need to be purchased thus an expenditure of £700k to £800k must be planned for April 2011.

The scheme is 'fiscally neutral' in that the payments received will be recycled back to participants on the basis of their performance in reducing emissions each October. Determination of the repayment is made according to the organisation's position in a league table of all participants. At the top of the league table a 'bonus' of 10% is paid whilst at the bottom a 'penalty' of 10% applies. Over a period of five years this bonus (or penalty) rises to 50%. The actual bonus or penalty payable for a given league table position is on a linear scale from top to bottom.

It is currently estimated that around 5,000 organisations will be participating in the scheme and these will include supermarkets, other large stores, manufacturing and commercial business as well as local authorities.

Part of the process requires the establishment of a 'carbon footprint report' and this will cover the actual emissions in 2010/11 financial year. The first allowances to be purchased are to cover retrospectively this base line year and for the predicted emissions for 2011/12 thus resulting in the double payment mentioned earlier.

After five years operation of the scheme the 'cap' will be introduced to set a limit on the number of allowances available and this will be progressively reduced over time to push towards Government carbon reduction targets.

Whilst initial pricing of allowances will be £12 per tonne of carbon dioxide, after the initial purchase period these will be traded on the open market with values set by supply and demand. In the event that an organisation has not purchased sufficient allowances to cover the year's emissions more must be bought to cover the total and these will have to be sourced from the market. Their cost may be higher but they are also subject to brokerage fees and tax which the original purchase is not. It is therefore important that sufficient allowances are purchased. Surplus allowances may be sold.

CRC will be administered by the Environment Agency which also acts as the regulator. There are both civil and criminal penalties for various aspects of non-compliance with the scheme.

RECOMMENDATIONS

It is recommended that:

1. Members note the forthcoming Carbon Reduction Commitment and its impact on the Council budget and cash flow.
2. The authority to trade allowances in the CRC scheme be delegated to the Head of Finance and Assets in consultation with the Director of Development and Neighbourhood Services.
3. Members note the benefit from the Carbon Management programme in reducing emissions from Stockton-on-Tees Borough Council activities thus placing the Council in good standing regarding performance under the CRC scheme.

DETAIL

Background:

1. As part of the long term Government aim to reduce carbon emissions in the UK, including commitment to international treaties such as Kyoto the decision has been made to introduce a 'cap and trade' scheme for high energy users who do not currently qualify for participation in the EU Emissions Trading Scheme (ETS).
2. This scheme is called the Carbon Reduction Commitment or CRC and will be introduced from April 2010.
3. Participation in the scheme is determined by the consumption of half hourly metered electricity during calendar year 2008. Consumption in excess of 6,000MWh requires full participation whilst organisations with half hourly meters but below this consumption figure, which includes Tees Active, will not participate but must provide information on consumption and emissions.
4. Registration to the scheme is mandatory and will take place in the period April to September 2010.
5. Whilst participation is determined by electricity consumption alone the scheme covers all energy supply except that associated with transport. Therefore gas and other fuel consumption must also be recorded and reported. From this data a conversion factor is applied which calculates the carbon emissions from the use of that energy.
6. It is worth noting that the conversion factor applied to the electricity consumption is dependant upon the national mix of electricity generation. It is therefore better to have a higher proportion of renewable energy or low carbon electricity generation in the mix.

7. CRC requires allowances to be purchased each April for each tonne of carbon dioxide expected to be emitted in the ensuing financial year. These allowances are purchased from Government at a currently predicted price of £12 per tonne.
8. A 'carbon footprint' report is required to cover emissions in 2010/11 and the first sale of allowances in April 2011 will include retrospective purchase for this year.
9. In addition in April 2011 allowances must be purchased to cover predicted emissions in 2011/12. Therefore the first year of trading will require the purchase of two year's worth of allowances. For Stockton-on-Tees Borough Council the currently estimated cost of allowances is around £350k to £400k per year. For the first year a payment of up to £800k must therefore be planned for.
10. After the initial purchase Allowances will be traded on the open market with prices set by supply and demand. Open traded allowances will be subject to broker fees and VAT so are likely to cost more than the initial £12.
11. Organisations must hold sufficient allowances to cover all actual emissions during the period therefore any shortfall would have to be made up by purchase of allowances on the open market.
12. To protect against the prices of allowances becoming too high there is a built in safety valve that will enable additional allowances to be purchased at the current market value of EU ETS allowances.
13. Organisations with surplus allowances may either trade them or bank them for future use. However, it needs to be noted that surplus allowances in year three may not be carried forward as this marks the end of the first phase of CRC and all remaining allowances will be cancelled prior to the start of the next five year phase.
14. The CRC scheme is fiscally neutral so Government income has to be recycled back to participants. Return payments will be made each October and will clear all receipts so for the first year this will be a double payment.
15. The actual value of funds returned will be determined by each organisation's position in a league table that reflects performance in carbon emissions reduction against the footprint year (2010/11). For those above the median an increasing bonus up to +10% is payable while below the median this becomes a rising penalty to -10%.
16. The bonus/penalty will rise at 10% per year to +/-50% by year five so league table position will be important to ensure a reasonable payback is achieved.
17. For the first compliance year which uses retrospective emissions data league table position will be determined by recognition of the benefits of operating within the new Carbon Trust Standard that replaces the Energy Efficiency Standard that Stockton-on-Tees Borough Council have been members of for a number of years, and by the use of Automatic Meter Reading (AMR). The Council achieved the Carbon Trust standard in July 2009 and is currently increasing the number of AMR meters in use.
18. It is currently estimated that there will be around 5,000 full participants in the CRC scheme and these will include manufacturing industry, commercial organisations, supermarkets and other large retailers. Local authorities will therefore be in the minority.
19. The Carbon Management Programme that Stockton-on-Tees Borough Council are participating in stands the Council in good stead regarding monitoring, reporting, predicting and reducing the carbon emissions to operate within CRC.

20. There is currently a scrutiny review being undertaken of the carbon management programme, the results of which are expected later this year.
21. Annual reports will have to be submitted to detail the emissions within CRC. These must cover at least 90% of all carbon dioxide emissions excluding transport. These are subject to audit by the Environment Agency who are planning a 20% audit level. On this basis an organisation can expect an audit at least once every five years.
22. All reported data must be supported back to meter readings and utility consumption data with a clear audit trail. Work in Stockton-on-Tees Borough Council on both the Carbon Management programme and National Indicators NI185 and NI194 reporting are already providing the basis for this.
23. There are other costs associated with the scheme and these are explained under Financial Implications below.
24. There are also a range of penalties that are explained under both Financial Implications and Legal Implications below.

Additional Drivers:

25. Carbon Budgets were set on Budget Day, 22 April 2009, and these are for a 22% reduction in carbon emissions compared to 1990 by 2012; a further reduction to 28% below 1990 levels by 2017; and at least 34% below 1990 levels by 2022.
26. Energy prices will continue an upward trend despite recent falls as the UK becomes increasingly dependant on imported fuel stocks and fossil fuel supply has to be provided from more difficult to access sources with consequent increased extraction costs.

Resources:

27. The existing Carbon Management team will provide the annual report data supported by the required audit trail, monitor emissions and provide predicted emission data.
28. A delegated authority will be required to conduct the trading of the CRC allowances.
29. At least three named individuals will need to be notified to the Environment agency as principal contacts for all communications on the scheme.

FINANCIAL IMPLICATIONS

30. The cost of adopting the Carbon Trust Standard is £12,000 for the first two years. This is required to facilitate a higher league table position for the first compliance year.
31. Registration to the CRC scheme incurs a charge of £950 and an annual fee of £1,300.
32. Initial purchase of allowances on the basis of current carbon dioxide emissions data at £12 per tonne will be in the range £350k to £400k.
33. For the first year only a double payment will be made in April 2011 to cover retrospectively the first compliance year and for predicted emissions for 2011/12. This will be in the range £700k to £800k total.
34. Return payments will be made each October but are dependant on league table position and the allocation of bonus or penalty payments amounting to +/-10% of the total collected sum. At present it does not appear possible to predict this outturn.

35. Late registration incurs a fine of £5,000 and £500 per day for each working day.

LEGAL IMPLICATIONS

36. Failure to provide the annual footprint report by the deadline incurs a fine of £5,000 and a further fine of £0.05 per tonne of carbon dioxide per working day up to a maximum of 40 days after which the daily fine is doubled.
37. Failure to keep adequate records incurs a fine of £5 per tonne of carbon dioxide.
38. In addition to the financial penalties detailed in paragraphs 33 to 35 above there are also criminal offences concerning falsification of information and attempting to deceive or mislead the administrator that incur penalties of up to three years imprisonment or a fine of up to £50,000.

RISK ASSESSMENT

39. Carbon Reduction Commitment is considered medium risk as whilst existing management and reporting structures will meet the reporting and monitoring requirements there are cash flow considerations due to the payment for allowances each April (double payment for April 2011) and it is presently not possible to determine the return payment made each October.
40. There is also a risk concerning the means of reducing energy consumption in schools where the Council has no direct control but would suffer the consequences of an increase in consumption or higher than predicted consumption being achieved.
41. Should the carbon emissions prediction be less than actual figures Stockton-on-Tees Borough Council would have to make up the shortfall by purchasing allowances on the open market or through the safety valve incurring additional costs to the initial purchase.

COMMUNITY STRATEGY IMPLICATIONS

Economic Regeneration and Transport

42. Through networking with other organisations in the Borough who participate in the CRC the work of Stockton-on-Tees Borough Council can help these businesses to reduce their emissions improving long term sustainability.

Environment and Housing

43. The CRC will provide a further financial driver to reducing carbon emissions thus contributing to the objective of tackling climate change.

Safer Communities

44. The work to provide efficient energy use in street lighting to reduce the number of allowances to be purchased can help to reduce the fear of crime.

Children and Young People

45. The focus on reducing carbon emissions across all the Borough's activities including schools will engage children and young people in the need for more sustainable energy use, a message they will take to their homes thus involving the wider community.

Liveability

46. This will improve the efficiency of energy use within the Borough.

EQUALITIES IMPACT ASSESSMENT

47. An Equalities Impact Assessment is not required as it is not a new policy, strategy or change in service delivery.

CONSULTATION INCLUDING WARD/COUNCILLORS

48. Consultation is ongoing with stakeholders and partners affected by the CRC such as Tees Active and schools. As further details become available consultation regarding the impact of CRC will continue.
49. Consultation with trade unions will take place on the issues that staff may have concerns with such as working environments.

Name of Contact Officer: Mike Chicken
Post Title: Environmental Projects Manager
Telephone No. 01642 528148
Email Address: mike.chicken@stockton.gov.uk

Background Papers

None.

Ward(s) and Ward Councillors:

Not ward specific.

Property

Endorses the principles covered in the Asset Management Plan especially the asset management section 3 concerning efficient operation of buildings in terms of energy use.