Committee	Date	Classification	Report No:	Agenda No:
Cabinet	8 April 2009	Unrestricted	CAB 139/089	

Report of: **Aman Dalvi** **Corporate Director Development & Renewal** **Author:** Jackie Odunoye Service Head Strategy, Regeneration and Sustainability	**Title**: Local Authority Carbon Management Programme **Wards affected:** **All**

1. SUMMARY

1.1 The Council has joined the sixth round of the Local Authority Carbon Management Programme which was launched in June 2008. The aims of this Programme are:

- To reduce CO_2 emissions.
- To reduce energy costs and improve energy efficiency.
- To show credible leadership in the community with regards to Climate Change mitigation

1.2 This report asks Cabinet to agree to the attached Carbon Management Plan which proposes that the Council commits to reducing CO_2 emissions from its own operations by 60% from the 2007 baseline by 2020.

Cabinet is recommended to:

2. RECOMMENDATIONS

2.1 Approve the Carbon Management Plan attached at Appendix 1 to the report.

2.2 Agree the following targets for reducing carbon emissions from Council operations as outlined in the Carbon Management Plan:-

- 25% by 2012
- 40% by 2016
- 60% by 2020

2.3 Agree that a corporate framework be developed to verify, achieve and maintain carbon reduction targets over the longer term within the Authority's Strategic Plan

2.4 Agree that the Authority's Capital Strategy be revised to include the aim of 'Reducing the Council's carbon footprint and assisting the community to do likewise'.

2.5 Agree that all new capital scheme funding applications include a Carbon Impact Assessment.

2.6 Instruct the Corporate Director Development and Renewal to review the Asset Management Plan (AMP) to assess the forward 'Carbon Reduction Commitment' risks being created by schemes already agreed within the capital programme, in the context of the Asset Management Plan's ability to deliver savings and cost reductions over the medium term.

2.7 Note that the target carbon reductions included in the Carbon Management Plan and the implementation of the projects detailed in the plan are essential to the achievement of the following National Indicators:

- NI185 %C CO_2 reduction from LA operations
- NI186 Per capita CO_2 emissions in the LA area

2.8 Note the introduction of the Carbon Reduction Commitment from 2010/2011 onwards and the potential financial penalties for not reducing carbon emissions.

3. LOCAL AUTHORITY CARBON MANAGEMENT PROGRAMME

3.1 To reduce corporate operational carbon emissions the Council joined the sixth round of the Local Authority Carbon Management Programme (LACMP), launched in June 2008. A Board is in place to steer the project, along with a Team involving representatives from all Directorates.

3.2 A Carbon Management Plan has now been produced and this is attached at Appendix 1. The Plan sets out a number of reasons why it is essential that the Council puts in place projects and systems that will reduce its carbon emissions:

- As a signatory to the Nottingham Declaration the Council committed itself to tackling the causes and effects of a changing climate in the borough
- The introduction of the Carbon Reduction Commitment in 2010 will mean that poorly performing authorities (i.e. those that do not reduce their carbon emissions) will be penalised dependant on their position in a league table
- There are two national indicators specific to CO_2 reduction
- Measures to increase energy efficiency will reduce energy costs, which have been rising dramatically
- Taking action to combat climate change will have a positive impact on an organisation's reputation and there is evidence to suggest it also improves staff morale

- It is part of a wider strategy to reduce its use of natural resources and its impact on the environment
- Sustainability will form a core part of the CAA
- The July 2008 CPA assessment included giving greater priority to environmental sustainability as an ‘Area for Improvement’

3.3. It is recommended that in adopting this Plan Cabinet also agrees to adopt the following target reductions against the 2007 carbon baseline of 42,853 tonnes CO_2 per annum.

- 25% by 2012
- 40% by 2016
- 60% by 2020

3.4 The Carbon Management Plan lists in section 4, a number of projects which have already been identified which will contribute to this target; this shows that almost 14% reduction on the baseline has already been identified provided the projects listed are implemented. The Carbon Trust advises that this is a reasonable number of projects to have started at this stage. Further projects will be identified and implemented as the work proceeds.

3.5 A Value at Stake assessment has been undertaken that suggests around £4 million cumulative cost avoidance if energy saving projects can achieve the 25% reduction by 2012. However, this is entirely dependant on the projects identified being funded, implemented and where relevant embedded into Council practice. A number of carbon reduction projects already have funding in place - some of which have already completed (section 4.1 of Carbon Management Plan).

3.6 The annual estimated cost avoidance of the 19 projects is not yet determined. This is because many of the projects need to be quantified further. Together they represent an annual 5,914 tCO_2 emission reduction from 2012. This contributes 13.6% of the ‘25% by 2012’ target, leaving a further 4,800tC to be delivered over the next four years. Whilst this target appears difficult to achieve, the revenue effect of capital schemes completed in the past few years at schools and other premises, together with the gains from the BSF schemes completing by 2012, will provide a significant part of this total.

3.7 Over the medium term more CO_2 reduction will emerge from review of the Asset Management Plan (AMP), regeneration of housing estates and the Building Schools for the Future programme. The potential annual revenue cost avoidance in excess of £1.4 million identified in the project has built in some assumptions of future increases in consumption but not factored in the impact of energy price rises going forward. The % year on year increase in energy consumption coupled with the ongoing rise in energy prices is putting a strain on the Councils revenue budgets which needs to be managed downwards

3.8 Achieving the carbon reduction targets recommended in the Plan is also essential to the achievement of two National Indicators:

- NI186 Per capita CO_2 emissions in the LA area
- NI 185 Percentage CO_2 reduction from LA operations

It also contributes to NI 194 (air quality) and NI 187 (fuel poverty)

3.9 In order to ensure that further projects are identified, costed, justified and implemented a corporate framework will be developed to verify, achieve and maintain carbon reduction targets over the longer term within the strategic planning process. Governance arrangements will be developed which consider the business case for each project, and ensure that investment in energy reduction projects derives optimum carbon, financial and promotional outputs from the carbon reduction agenda.

3.10 Meanwhile, it is important that the Council takes every opportunity to embed carbon reduction into management thinking, both to reduce energy costs and to minimise the Council's carbon impact. In this regard, it is recommended that the Capital Strategy be amended to include the aim of *'Reducing the Council's carbon footprint and assisting the community to do likewise'*. Cabinet is asked to agree to add a Carbon Impact Assessment into the capital programme review process, with a requirement that all new funding applications include a Carbon Impact Assessment that is auditable.

3.11 Both the Asset Management Plan and the Revenue Implications Assessment of the 2008-09 Capital Programme need to be re-visited to assess the forward risks being created, in the context of the AMP's ability to deliver savings over the medium term, where opportunities exist to offset emissions growth through further efficiency measures. Programme managers are already able to source additional funds:-

- The Prudential Code may be well suited to support longer paybacks on carbon reduction capital expenditure.
- It is possible to lever-in match funding from the Carbon Trust via Salix, typically around £250,000.
- In the social housing sector there are grant funds available from the CERT and Low Carbon Buildings Programmes, each representing good leverage from housing investment budgets, which in turn will improve Tower Hamlets Homes performance on its Use of Resources assessment.

3.12 Manager training needs are being evaluated, with a view to providing additional support on carbon budgeting for service planning, in order to embed carbon management across the Council.

4. CARBON REDUCTION COMMITMENT

4.1 The Carbon Reduction Commitment is a statutory obligation which covers all mains gas and grid electricity consumption from the Council's direct or contracted-out[1] operation of its functions. State-funded schools are included and will have a new duty placed on them to supply their Local Authority with annual energy use data.

4.2 The Council will need to register its total 2008 half-hourly electricity consumption in December 2009 as part of the Baseline Survey, monitor all its energy use between October 2009-March 2010 as part of the Baseline monitoring phase and report actual energy use at the end of each financial year, commencing July 2010. The Council will need to purchase allowances to cover its carbon emissions from April 2010, the first sale of allowances taking place in April 2011. Subsequent allowance sales will be open for one month (each April), when sufficient allowances must be secured for the forthcoming year's energy use. .

4.3 The Carbon Reduction Commitment will be rolled out in two phases: Phase 1 covers the period 2010–2013 with CO_2 priced uniformly at £12 per tonne. Monies raised from carbon allowance sales within the Carbon Reduction Commitment process are recycled back to Carbon Reduction Commitment participants on the basis of their position in a 'league table'

4.4 Phase 2 will run for 5 years between 2013/14 and 2017/18 - the price of carbon allowances will vary each year, on the basis of a sealed bids auction, and there will be a cap on the total amount of allowances available. For the first year of Phase 2 (2013/14) the cap will be set on the baseline of the Council's 2011/12 emissions. Thereafter the caps will be set on a reducing trend, assisting the national target of saving 1.2mtC p.a. by 2020.

4.5 Based on the latest available year's data (2007) the total CO_2 emissions from mains gas and grid electricity were 32,441tC. Assuming these were the Year 1 emissions for Carbon Reduction Commitment, the cost of 2010/11 allowances would be £389,292. This cost will only be fully recoverable if the Council can hit the median point in the league table. Realistically it is possible that a penalty of up to 10% might be payable, and as energy usage increased by 9% between 2006/07 and 2007/08, and this upward trend continued through 2008 this would produce a 'cost at risk' in Year 1 of up to £50,000. This is the 'best case' scenario.

4.6 From year 2 onwards the initial position in the league table will be determined by whether the Council's energy usage has increased or decreased from the previous year. Penalties for poor performance will become progressively higher, adding further impetus to the drive to reduce energy consumption.

4.7 In addition there will be registration costs and 'fines' if the Council does not keep the mandatory information pack up to date or does not submit the statutory returns on time. The following table illustrates the potential costs to the Council:

[1] Where the Council is a party to the Contractor's energy supply contract.

Summary for the First Three Years of the Scheme

Year of Scheme	Best Case Scenario £'000	Worst Case Scenario £'000
Registration	-	105
Year 1 (2009/10)	(38)	405
Year 2 (2010/11)	(269)	700
Year 3 (2011/12)	(403)	834

4.8 The costs shown in the above table are all additional to the costs of the energy consumed. Therefore the total potential cost avoidance if the 25% CO_2 emission reduction by 2012 is achieved may be in excess of £1million per year.

5 COMMENTS OF THE CHIEF FINANCIAL OFFICER

5.1. The financial consequences of carbon management relate to;

- The costs of implementation of carbon management schemes. The cost of achieving the recommended targets proposed in this report (para 2.2) are not identified in the report, but could be considerable.
- The risk of incurring costs under the Carbon Trading Scheme (CRC) as set out in section 4 above. It should be noted that the figures are indicative figures only and could be higher or lower than described in this report.

5.2. The Carbon Management Programme contains proposals for a number of carbon management schemes and indicates draft financial implications. These implications continue to be revised as the Programme develops. At this stage it appears more likely that initial schemes will not deliver financial savings that support the medium term financial strategy. All projects must adhere to strict invest to save criteria being developed as part of the Carbon Management programme and subject to CFO approval.

5.3. Funding for the Carbon Trading Programme would need to come from a number of sources, including the Capital Programme and Revenue growth. Identification of funding would need to take the form of either revenue or capital growth bids in future budget rounds. It is possible that some projects may qualify as invest to save projects that could be sponsored and delivered through the Council's Efficiency Programme. Accordingly a robust financial business case would need to be developed for each of these proposals on a case by case basis.

5.4. The Carbon Trading Scheme involves potential costs from;

- Fines as a result of failure to comply with elements of the scheme. It is not anticipated that the authority will fall foul of any of these provisions.

- Penalties incurred by the authority's position in the carbon trading 'league table'. It is important to realise that it is the authority's performance relative to other organisations that will determine these payments, so it is possible (if not likely) that the authority would incur costs even if it reduces its carbon usage.

- Any costs incurred in the early years of the scheme will therefore need to be met from existing budgets or from reserves. A report to Members would be submitted at the appropriate time.

5.5 The costs of administration of the Carbon Trading Scheme and the management of the programme will need to be met within existing resources.

6 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

6.1 Cabinet is requested to approve the Carbon Management Plan in Appendix 1, adopt specified targets for carbon emissions and agree to development of a corporate framework for addressing the targets within the strategic plan.

6.2 The Council has power to pursue action on climate change. The Council may do anything which it considers likely to achieve promotion of the economic, social or environmental well-being of the whole or any part of Tower Hamlets or all or any people resident or present in Tower Hamlets. In determining how to exercise this power, the Council must have regard to its sustainable community strategy.

6.3 The Community Plan makes improving the environment and tackling climate change a priority as part of the theme of A Great Place to Live. The Community Plan specifically states that this priority will be achieved by specified means, including: reducing energy use and using more renewable energy sources. The strategic plan sets out the Council's contribution to achieving the Community Plan.

6.4 It is open for Cabinet to conclude that there is power to make the requested decisions.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 Implementing the Carbon Management Plan will positively contribute to the One Tower Hamlets objectives of ensuring strong community cohesion and strengthening community leadership.

8 RISK MANAGEMENT IMPLICATIONS

8.1 Implementing the Carbon Management Plan will have a number of beneficial outcomes for the Council, including substantial potential cost avoidance and the ability to achieve two national indicators as well as enhancing its' reputation as an organisation which takes climate change seriously.

8.2 However, these outcomes will only be achieved if the projects included within the plan, are funded, implemented and embedded into Council practice. These projects will therefore need to be carefully monitored via the Asset & Capital Management Board.

9 ANTI POVERTY IMPLICATIONS

9.1 Projects which reduce energy consumption and thus cost in the communal areas of the Council's housing stock will help keep service charges to tenants and leaseholders at a reasonable level.

10 EQUAL OPPORTUNITIES IMPLICATIONS

There are no implications to this report

11 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

11.1 Climate change is already damaging the world's ecosystems and if we are to avoid its worst effects we have to stay below a 2^0 C increase in average global temperatures, compared to what they were before the industrial era. The government has placed emphasis on local authorities setting a leading example on climate change.

11.2 Actions by local authorities will be critical to the achievement of the government's climate change objectives such as the long term goal to reduce CO_2 emissions by 80% of 1990 levels by 2050. This report sets out the Council's response to this challenging agenda, in as far as carbon emissions from its own operations are concerned. As such it sets out a programme of actions which when implemented will have a positive impact on the local environment and will contribute to the wider climate change agenda.

12 EFFICIENCY STATEMENT

12.1 Energy costs continue to rise and the Council's use of energy has also risen by 9% between 2006/07 and 2007/08. Implementation of the projects included in the Carbon Management Plan will reverse this trend of ever increasing energy usage and therefore avoid a proportion of the energy costs which the Council would otherwise have incurred.

13 APPENDIX

London Borough Tower Hamlets Carbon Management Programme

List of “Background Papers” used in the preparation of this Report

Tower Hamlets Community Plan, 2020 Vision
Tower Hamlets Procurement Policy
Climate Change Act
Nottingham Declaration on Climate Change

Contact Officer: Rachel Carless
Sustainable Development team, D&R
rachel.carless@towerhamlets.gov.uk