


<p>Cabinet</p> <p>5 January 2016</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Aman Dalvi - Corporate Director of Development & Renewal</p>	<p>Classification: Unrestricted</p>
<p>Carbon Offset Solutions Study</p>	

Lead Member	Councillor Rachel Blake, Cabinet Member for Strategic Development
Originating Officer(s)	Jonathan Taylor, Sustainable Development Team Leader
Wards affected	All wards
Key Decision?	No
Community Plan Theme	A Great Place to Live

Executive Summary

- i. The Carbon Offset Solutions Study (herein referred to as ‘the Study’) has been undertaken to quantify the amount of monies that may be available through planning contributions to fund carbon offset projects and to identify a portfolio of potential projects and solutions to be delivered from the contributions.
- ii. The proposals have been developed to ensure clarity on how funds secured through S106 will be allocated, and to provide transparency in the identification of projects to be delivered.
- iii. The carbon offsetting mechanism to secure funds is included within the adopted Planning Obligations Supplementary Planning Document (SPD) (2012) which identifies that where the policy requirement for carbon emission reductions cannot be met on-site, the *‘remaining carbon emissions will be offset through providing new and additional opportunities to reduce carbon emissions from existing housing in the Borough or community energy saving programmes or other initiatives’* (page 47 Section 5.60 (Energy)).
- iv. The Study has sought to establish the guidance for delivering the types of projects identified in the planning obligations document and includes three key project areas:
 - **Fuel poverty** – The abolishment of the national WarmFront grant has had an impact on the residential sector, especially private sector housing, the grant paid for domestic energy efficiency measures. It is proposed that a proportion of the carbon fund is used to establish the WarmFront scheme for the residents of Tower Hamlets.

- **Retrofit** – the Council’s bulk energy contract is in the region of £7.3m per annum. Therefore retrofitting buildings with energy efficiency measures will enable the Council to meet its environmental targets, reduce carbon emissions and reduce energy costs.
 - **Community fund** – to empower and engage the community it is proposed that a fund would be set up and made available through applications from community groups to deliver their own carbon reduction projects. Decisions regarding the setting up and spending of grant are to be taken by the Commissioners.
- v. The approval of the Study, which includes the Borough’s proposal in managing the funds and delivering the projects, will provide the following benefits:
- We will be able to deliver the much needed energy improvement projects in the Borough and reduce Borough wide carbon emissions; this will help improve our position as one of the worst polluting boroughs in London, LBTH is currently third worst.
 - We will be able to deliver projects to alleviate fuel poverty by delivering residential energy improvements projects.
 - We will be able to deliver projects to make our buildings. including schools, more energy efficient thereby reducing energy costs.
 - We will be able to engage businesses to reduce their carbon emissions and reduce their energy costs which will provide an economic boost to the small and medium enterprise sector in our Borough.
 - We will be able to generate an income for the Sustainable Development team by managing the fund and the project delivery.

Recommendations:

The Mayor in Cabinet is recommended to:

1. approve the Carbon Offset Solutions Study for adoption
2. note the monies secured to date
3. note the council’s approach in managing the funds and delivering projects

1. REASONS FOR THE DECISIONS

- 1.1 The approval of the Study will provide an adopted approach to the council manage the carbon offsetting contributions. This is important to ensure that planning obligations are appropriately collected and that the council has in place a transparent approach to project selection and prioritisation.
- 1.2 The approval of the study will provide clarity on how funds are to be allocated and demonstrate the council's commitment to delivering carbon reduction projects.
- 1.3 The Wood Wharf outline planning permission (PA/13/02966) details the carbon offsetting contributions are to be applied in accordance with the 'carbon offsetting guidance' (Schedule 12; para 1.5 of the S106). In the absence of any adopted carbon offsetting guidance the developer would pay the contribution into an escrow account and have control of the finances. It is therefore important to have adopted guidance in place to ensure contributions and projects are administered by the council.

2. ALTERNATIVE OPTIONS

- 2.1 An alternative option would be not to have a Study, however, this would not deliver any of the stated benefits of adopting the study and the proposals for carbon offsetting could be questioned through a lack of transparency and confidence in the council to spend the contributions.

3. DETAILS OF REPORT

National Policy

- 3.1 The Study was undertaken to provide a local authority framework for meeting zero carbon new buildings requirements which were anticipated to be delivered under Building Regulations 2016, incorporating the Government's proposals for 'Allowable Solutions' (This is the principle of offsite carbon abatement measures to enable a development to achieve its carbon reduction requirements).
- 3.2 There have been recent announcements at the national level (Fixing the Foundations Statement – 10th July 2015) that are due to have implications for carbon emission reduction policies. The Chancellor's statement identifies the Government's delay in implementing the zero-carbon housing standards and associated allowable solutions carbon offsetting scheme.
- 3.3 There have not been any further updates on timeframes for implementing the zero carbon buildings agenda, although an announcement is anticipated on how the UK will be delivering the requirements of the EU Directive on energy performance of buildings (2010/31/EU).

- 3.4 Article 9 of the EU Directive (2010/31/EU) requires member states to ensure that all new buildings are nearly zero energy buildings by 2020, and that public authority new buildings are nearly zero energy after 31st December 2018. This has implications for the planning system and delivery of targets to meet the 2020 deadline. Member states are required to have intermediate targets for improving the energy performance of new buildings to meet the 2020 timeframe.

Local Policy

- 3.5 The current Development Plan (Local Plan Policies DM29 and London Plan Policy 5.2) requires carbon dioxide reduction targets to be met on-site. Where it is clearly demonstrated that the specific targets cannot be fully achieved on-site, any shortfall is to be provided off-site or through a cash-in-lieu contribution to the relevant borough to be ring fenced to secure delivery of carbon dioxide savings elsewhere.
- 3.6 Through the implementation of this policy the Borough has been collecting monies through section 106 agreements and to date there is an accumulated amount of £6.3 million. To date we have received £92,966 into the Borough s106 accounts ready to be utilised.
- 3.7 The Carbon Offset Solutions Study outlines how the Borough will manage the Carbon Fund and the type of projects it will deliver.

Current Tower Hamlets Policy

- 3.8 LBTH Managing Development Document (2013) Policy DM29 sets out carbon emission reduction requirements within the Borough as follows:

Residential development

2013-2016 50% CO2 emissions reduction

2016 Zero Carbon

Non-residential development

2013-2016 50% CO2 emissions reduction

2016-2019 As per building regulations

2019 Zero Carbon

- 3.9 The Carbon Offset Solutions Study has sought to establish a process for when specific targets cannot be fully achieved on-site, any shortfall can be provided off-site. This supports our Planning Obligations SPD (adopted January 2012) which identifies that *'the remaining carbon emissions will be offset through providing new and additional opportunities to reduce carbon*

emissions from existing housing in the Borough or community energy saving programmes or other initiatives’.

Current Carbon Offset Budget

- 3.10 Through negotiations with developers sign posted funds for carbon offsetting are approximately £6.3 million. The funds have been identified using the GLA and Central Government guidance for the cost of carbon, which currently stands at £1,800/tonne CO₂. The figure used for future carbon offsetting calculations is subject to change and will be updated in-line with GLA and Government guidance.
- 3.11 It has been identified through the Study that planning obligations contributions could provide a budget of between £0.5 million and £2 million to be available annually over the next 20 years for mitigation in Tower Hamlets.

Project Identification

- 3.12 The Study identifies over £20 million worth of energy efficiency projects that could be delivered in the Borough. These have been categorised as retrofit projects, fuel poverty projects and community projects.
- 3.13 For retrofit projects, detailed feasibility study work on 10 of our key buildings has been undertaken, which has identified £500,000 of deliverable projects. This work has been undertaken in conjunction with the Council’s adopted Carbon Management Plan which identifies projects to meet the council’s 60% carbon reduction target by 2020.
- 3.14 The Sustainable Development Team have experience in delivering fuel poverty projects throughout the Borough. From the experience of the recently completed Warm Front schemes, it is anticipated an annual budget of £250,000 will be required to deliver the Fuel Poverty projects.
- 3.15 It is also anticipated that an initial fund of £250,000 will be needed to start the Community Fund project. The idea of the community fund is to engage local people and get them to act on taking responsibility for the environment and carbon reduction. Once the first pot of funding is established for this element (i.e. the £250,000) the funding round for this allocation will be announced. It is envisaged that an upper limit will need to apply to the amount of funding available to each organisation to ensure that a variety of projects are delivered from each funding round. The maximum limit for each funding round will be at the discretion of the Carbon Fund Board that will be established.
- 3.16 It is proposed that in the initial stages of the delivery of this strategy the above projects are delivered first. Once the programme has established itself the Carbon Fund Board is set up to provide direction on future deliverable projects based on the accumulated funds released in to the Council’s s106 account.

Project Priority

- 3.17 Projects that provide the best value for money and the most benefits for the residents of Tower Hamlets will be delivered first. Projects will be grouped to ensure that they deliver a balanced reduction in CO₂ emissions. This will enable all types of projects to be delivered over time and ensure the most expensive to deliver projects are not left which become undeliverable in the end.
- 3.18 Alleviating fuel poverty is a high priority for the council. The delivery of projects to alleviate fuel poverty will directly benefit those who need it most and therefore these projects will be given the highest priority based on the agreed value for money criteria.
- 3.19 Projects to reduce energy costs and CO₂ emissions reductions in council operational buildings will be given the next priority. The council has a significant expenditure on energy costs and is also required to pay a carbon reduction commitment tax of £145,000 per annum. The cost of energy and carbon is likely to continue to increase thereby increasing the council's costs.
- 3.20 Projects to improve the energy efficiency of the council's operational buildings will be treated as invest to save projects and make a contribution to the council's savings programme.
- 3.21 Creating resilient, empowered and sustainable communities will be given priority. Projects enabling communities to control and own the generation and usage of renewable energy can bring communities together and play a part in creating self-sustaining communities.

Technology Priority

- 3.22 Energy efficiency and renewable energy technology continues to improve and advance. The list of technologies and the order of priority as identified in the Study will need to be continually revised to ensure the appropriate and best value for money and CO₂ reduction technologies are used to deliver the projects.

Community Infrastructure Levy

- 3.23 The Community Infrastructure Levy (CIL) is a planning charge introduced in England and Wales to help deliver infrastructure to support development.
- 3.24 Under the Planning Act of 2008, Local Authorities are also now allowed to introduce CIL which is levied against a wider range of developments using a specific tariff schedule based on a fee per metre square of development. CIL has to be used on infrastructure projects listed on the Local Authority CIL Regulation '123' list.

- 3.25 CIL is not considered to be an appropriate mechanism for collecting carbon offset payments, for the following reasons:
- CIL is a fixed charge per metre square and does not account for the varying performance of developments in terms of carbon emissions;
 - CIL is not charged on affordable housing or charitable premises;
 - CIL is not charged on refurbishments if there is no increase in square footage; and
 - CIL must be spent on new infrastructure, not retrofits.
- 3.26 The proposed carbon offsetting mechanism is in accordance with the 'limitation on use of planning obligations' test (CIL Regulation 122).

Infrastructure Delivery Framework

- 3.27 The Revised Supplementary Planning Document (SPD) 2015 sets out the council's policy for securing planning obligations in respect of new developments following the introduction of CIL. The SPD provides a framework for calculating S106 financial contributions where carbon reduction targets on-site are not possible and a contribution to a carbon offsetting fund is required to meet the shortfall.
- 3.28 The SPD advises contributions will be pooled and placed in the 'carbon offsetting fund' and used by the Council to fund projects to reduce carbon dioxide emissions in the borough.
- 3.29 The proposals within the Study have identified the fund management principles, based on clarity, accountability and transparency. This is covered in detail in section 11.0 of the report which sets out the proposed governance structure for the initial stages of delivery and also long-term proposal for a Carbon Offsetting Board to be set up to decide and prioritise projects. The Study includes 'carbon offsetting guidance', included a proforma, to facilitate transparency and provide the criteria to assess the potential projects in the decision making process.
- 3.30 All decisions to finally allocate resources are currently approved through the Council's Planning Contribution Overview Panel (PCOP), that has the authority, under delegated powers, to monitor the implementation and expenditure of S106 agreements and monies, and ensure delivery in accordance with the terms of the relevant agreement, with due regard to funding purpose, geographical restrictions and within the defined timescale.
- 3.31 The S.106 process is being restructured into the Infrastructure Delivery Framework and therefore the projects would be the subject to scrutiny and sign-off from the Infrastructure Delivery Steering Group and Infrastructure Delivery Board. The Infrastructure Delivery Framework does not give approval for the delivery of the projects; it simply makes a decision on whether S.106

and/or CIL funding will be provided to support the project. The approval of carbon offsetting projects, and the use of any other funding sources, will continue to be required through the Carbon Offsetting Fund Board.

- 3.32 The carbon offsetting finances are derived through S106 Obligations; they can only be spent on carbon reduction projects and therefore cannot be subject to re-allocation to other projects.

Governance

- 3.33 One of the main objectives of the study is to ensure transparency in the use of the Carbon Fund. Therefore it is proposed that a Carbon Fund Board will be set up to provide strategic direction on the use of the Fund.
- 3.34 The Board will also have the remit to decide the maximum level of funding available for each bidding round for the Community Fund.
- 3.35 The Board will be set up once the Community Fund is established. It is proposed the board meet quarterly but allowing the board to meet more frequently if required.
- 3.36 The carbon offsetting process does not remove the need for funding sign-off by the Infrastructure Delivery Steering Group (or PCOP currently). The Carbon Offsetting Fund Board will be making decisions on the allocation of funding for a specific project to be taken to the Infrastructure Delivery Steering Group (or PCOP currently) for sign-off.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 Although the Community Infrastructure Levy system took effect within Tower Hamlets from 1 April 2015, carbon offsetting is part of the reduced Section 106 planning obligations process that remains in place. Resources are secured under Section 106 arrangements in mitigation where schemes do not meet the development plan target for reducing carbon dioxide emissions. Contributions are placed in a fund and used to reduce carbon dioxide emissions in projects within the borough.
- 4.2 This report refers to the potential for significant planning contributions to be generated under these arrangements, however, it should be noted that although agreements for £6.3 million of resources have been entered into, only a minor element (£93,000) has been collected to date. Payments under Section 106 contracts are only generated at certain stages of the development process, with no payment liability if schemes do not progress. It is therefore essential that no funds are allocated or committed until the resources are received by the council.
- 4.3 The Study outlines three main potential project areas - Fuel Poverty; Retrofit and the establishment of a Community Fund. Processes for the allocation of resources to projects are being incorporated into the proposed Infrastructure

Delivery Framework. This will ensure that any funding is allocated in a transparent manner (see paragraphs 3.30 and 3.31), with any grants awarded requiring Commissioner approval under the terms of the Ministerial Direction of 17th December 2014.

- 4.4 Under the Retrofitting option, new systems will be added to older buildings to improve energy efficiency and reduce carbon emissions. A basis for utilising this funding source will be required, but if applied to council buildings it has the potential to reduce the energy costs incurred by the authority, as well as reducing the liability for levies under the Carbon Reduction Commitment. The same will apply if the funding is utilised to install new energy measures within a school.

5. LEGAL COMMENTS

- 5.1 Section 19 (1A) of the Planning and Compulsory Purchase Act 2004 requires local planning authorities to include in their Local Plans “policies designed to secure that the development and use of land in the local planning authority’s area contribute to the mitigation of, and adaptation to, climate change”
- 5.2 The Council has adopted a Planning Obligations SPD (“the Policy”) where the policy requirement for carbon emission reductions cannot be met on-site, the *‘remaining carbon emissions will be offset through providing new and additional opportunities to reduce carbon emissions from existing housing in the Borough or community energy saving programmes or other initiatives’* (page 47 Section 5.60 (Energy)).
- 5.3 The recommended projects seek to fulfil the provisions in the Policy.
- 5.4 In so far as any project concerns the setting up of or spending under a grant a decision of the Commissioners will be required.
- 5.5 In the exercise of its functions the Council is required under section 149 of the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination and advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not. The public sector equality duty is further considered in section 6 below.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 Officers have taken the equality duty into account in the preparation of the Carbon Offset Solutions Study and concluded that the studies and recommendations have no immediate equality implications; in the development of the individual projects equality duties will be applied.
- 6.2 The study only has a tangential effect at this stage by the prospect of, for example, reducing fuel poverty (which may have a disproportionate effect on groups with certain protected characteristics). That is a potential side benefit of the projects envisaged but the priority of the projects to be funded as a

result of the study is reduction of energy use and carbon emissions. Issues such as mitigating fuel poverty are dealt with by other initiatives.

- 6.3 In so far as the individual carbon reduction projects are proposed the Equality Act duties will be more thoroughly considered when planning those projects.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 Cost efficiency is extremely important in identifying the projects to be delivered through the carbon offset fund. The CO₂ emission reduction potential of the projects will include analysis of the cost per tonne CO₂ over the lifetime of the projects. The £/tCO₂ over the lifetime will be a key factor in the criteria for allocating funds and is represented in the carbon offset guidance.
- 7.2 The projects to be delivered will reduce energy consumption across all sectors, including consumption of domestic electricity and therefore reduce carbon emissions.
- 7.3 The proposals will have the benefit of reducing the number of households experiencing fuel poverty and ensure housing is efficient and affordable to heat. This has the potential to positively impact on health inequalities and reduce the number of heat and/or cold related deaths through ensuring buildings, and in particular housing, are comfortable temperatures all year round.
- 7.4 Through the delivery of community projects the proposals will aim to develop community skills to respond to climate change e.g. deliver renewable energy projects; energy efficiency programmes; and climate change education programmes.
- 7.5 The Study aims to deliver objectives within the Strategic Plan 2015/2016 relating to carbon emission reduction and fuel poverty. The proposals also positively contribute to the LBTH Community Plan 2015 'Priority 1: Empowering residents and building resilience', which identifies the need for a project to enable 'individuals and community organisations to apply for funding to help reduce the energy use and carbon emissions in their area'.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 Tower Hamlets produces the third highest level of total carbon emissions of the 33 Local Authorities in Greater London. Carbon dioxide is the key greenhouse gas causing climate change, making up 85% of the United Kingdom's greenhouse gas emissions.
- 8.2 There are significant drivers to reduce carbon emissions, including the Mayor of London's objective of delivering a 60 per cent reduction in CO₂ by 2025, and the 80% cut required under the 2008 Climate Change Act.

8.4 Local impacts of climate change are anticipated to be:

- increase in average annual flood incidence / damage drought orders
- changes in ranges of habitats
- increase in number of heat and/or cold related deaths
- increase in number of cases of subsidence / insurance claims for subsidence
- changes to river flows and water quality

8.3 Growth in population and new development is likely to make it challenging to reduce emissions and mitigate these impacts. It is therefore vital to tackle CO₂ emissions from the existing building stock which is the key focus of the projects identified in the study.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The projects to be delivered will reduce energy consumption across all sectors which therefore reduce carbon emissions. This will benefit the council through the financial savings that can be achieved through reducing the carbon footprint and Carbon Reduction Commitment (CRC) payments.

9.2 Through the retrofit proposals there is the benefit of reducing the number of households experiencing fuel poverty and ensure housing is efficient and affordable to heat. This has the potential to positively impact on health inequalities and reduce the number of and/or heat cold related deaths through ensuring buildings, and in particular housing, with comfortable temperatures all year round.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 The Study has no crime and disorder implications. Crime and disorder implications for individual projects will be risk assessed at the planning stage of each project.

11. SAFEGUARDING IMPLICATIONS

11.1 There are no safeguarding implications.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE.

Appendices

- Carbon Offset Solutions Study
- Equality Impacts Assessment

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

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