

<b>Committee/Meeting:</b> Cabinet	<b>Date:</b> 8 <sup>th</sup> September 2010	<b>Classification:</b> Unrestricted	<b>Report No:</b>
<b>Report of:</b> Corporate Director Aman Dalvi  Originating officer(s) Sian Pipe		<b>Title:</b> Carbon Reduction Commitment (CRC) Energy Efficiency Scheme  <b>Wards Affected:</b> All	

<b>Lead Member</b>	Councillor David Edgar, Lead Member Resources
<b>Community Plan Theme</b>	A Great Place to Live / A Prosperous Community
<b>Strategic Priority</b>	

## 1. **SUMMARY**

- 1.1 This report serves to inform members about the Council's mandatory participation in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme.

## 2. **DECISIONS REQUIRED**

Cabinet is recommended to:-

- 2.1 Note the obligation placed on it by the CRC Energy Efficiency Scheme, note the steps taken and potential risks.

## 3. **REASONS FOR THE DECISIONS**

- 3.1 Cabinet is asked only to note the information provided in the report, which relates to a scheme that is mandatory under the Climate Change Act 2008.

## 4. **ALTERNATIVE OPTIONS**

- 4.1 No alternative options are presented, as the report only provides information about a mandatory scheme.

## 5. **BACKGROUND**

- 5.1 The CRC Energy Efficiency Scheme is an obligatory emissions trading scheme covering defined public and private sector organisations, and is a central part of the UK's strategy to deliver the emission reduction targets set in the Climate Change Act 2008. Qualification for the scheme took place in 2008 and registration takes place from April – September 2010. Failure to register carries civil penalties of £5,000 + £500 per working day (top limits apply), several other substantial fines are also applicable.
- 5.2 The Council has a legal obligation to participate in the scheme and to take responsibility for state funded schools. This means that all council operations are included, e.g. administrative offices, social care homes. It also includes landlord tenant relationships and may extend to certain PFI and joint ventures.
- 5.3 Success within the scheme is dependent on a league table position, therefore reducing carbon emissions and improving energy efficiency are essential, not just in the 'energy manager' domain, but facilities management, schools, investment in energy administration and infrastructure. The cooperation of all directorates is essential to effectively meet the terms of the scheme and ensure full compliance.
- 5.4 Basic compliance with CRC, is largely an administrative overhead (i.e. process). However, to do well and benefit from energy saving a cross council cultural and management approach would be required. The Local Authority Carbon Management Board is overseeing a number of carbon/energy reduction projects. These projects have both cost reduction and carbon saving implications that will enable the Council to meet its obligations under the CRC Energy Efficiency Scheme.
- 5.5 The Council has a number of energy and carbon reduction projects which have been implemented or are ongoing and some in need of investigation, defining and funding. These are shown in the table below.

<b>Project Description</b>	<b>Comments</b>	<b>Timescale</b>	<b>CO<sub>2</sub> savings/year (tonnes)</b>
Improving Energy Monitoring	Identify directorate champions to be responsible achieving reduction targets	By March 2011	Not defined as yet
The Big Switch Off	Staff awareness campaign	In progress	340
Albert Jacobs House – Voltage Optimiser	Achieving electricity and carbon savings	Installation April 2010	30
Parks operational buildings	Draft proofing, energy efficiency	2010/11	24

	measures, insulation		
Automatic meter reading equipment	To be installed across the estate to promote accurate billing and energy monitoring	Gas AMR installation complete. Electricity AMR started phase 1	Can be defined after first year of operation
Utility company feed-in tariff for council buildings & schools	Energy companies to donate and install renewable energy technologies (solar thermal, photovoltaic panels) the site benefits from renewables and energy company from the Feed-in-Tariff	Investigation and site identification in progress	

## 6. **THE SCHEME**

- 6.1 The CRC Energy Efficiency Scheme is a mandatory scheme and has implications of fines for non compliance, initial set up costs, budget uncertainty and reputation. The Council has a programme of Automatic Meter Reading (AMR) equipment installation in progress and an excellent data capture mechanism in place. Energy efficiency and carbon reduction projects are in place throughout the borough to begin the energy reduction, such as the voltage optimiser at Albert Jacobs House.
- 6.2 In the introductory phase the Council must estimate how much carbon it will use in the first year and then purchase allowances to that level. Later in that financial year, actual performance against that original estimate will be ascertained and a 'recycled' payment made back to the Council. If usage is lower than estimated then the recycle payment will be greater than the original amount paid into the scheme. If performance is worse then the opposite will be true.
- 6.3 For the first years of the scheme the price of carbon allowances will be fixed at £12 per tCO<sub>2</sub>. The total cost to the Council of allowances is estimated at £442,620, based on an estimated baseline of 36,885 tonnes of CO<sub>2</sub>.
- 6.4 The usage by directorate is estimated as shown in the table below.

<b>Directorate</b>	<b>Percentage Share (%)</b>	<b>Baseline Usage (tCO<sub>2</sub>)</b>	<b>Cost (Year 1) (£)</b>
Adult's Health & Wellbeing	2.07	764	9,168
Communities, Localities & Culture	24.66	9,094	109,128
Children, Schools & Families	48.60	17,925	215,100
Development & Renewal	3.91	1,444	17,328
Resources	20.76	7,658	91,896
<b>Council Total</b>	<b>100.00</b>	<b>36,885</b>	<b>442,620</b>

6.5 The repayment to the Council will be dependent upon performance against the estimated usage for the year. It should be noted that in the first three years of the project repayments will be capped at +/- 10%, +/- 20% and +/- 50% respectively.

6.6 The recycled payments that the Authority will receive in the first three years of the scheme will therefore fall within the following parameters :-

<b>Emissions year</b>	<b>Payment</b>	<b>Recycled payment received best case</b>	<b>Gain</b>	<b>Recycled payment received worst case</b>	<b>Loss</b>
2011	£442,600	£486,882	£44,282	£398,358	(£44,242)
2012	£442,600	£531,144	£88,544	£354,096	(£88,544)
2013	£442,600	£663,930	£221,330	£221,310	(£221,330)

- 6.7 Participants' position in the league table will not only depend on how they score in the performance matrix but it will also depend on relative performance against other participants. It is therefore possible to be bottom of the league table even if emission reductions have been achieved. Nevertheless, there will be cost benefits as a result of the energy saved.
- 6.8 The Carbon Trust estimate £150 saving in electricity costs for every tonne of CO<sub>2</sub> saved. This cost saving far outweighs the financial incentives associated with revenue recycling even if the maximum bonus/penalty factor +/- 50% is used.
- 6.9 In the Government's annual energy statement, presented on July 27th 2010, under the section 'Helping business and industry use energy more efficiently', it was stated that 'The introduction of CRC has already increased attention on energy efficiency amongst the target group of large energy users and there are emerging signs of the financial and reputational drivers influencing participants' behaviour. We will keep the operation of this scheme under active review with a particular eye on simplifying it and ensuring it properly incentivises those who do most to improve energy efficiency. We aim to introduce changes ahead of the capped phase.'
- 6.10 Further information on the scheme can be downloaded from:  
[www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)

## **7. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 7.1 The CRC Energy Efficiency scheme is an obligatory emissions trading scheme covering defined public and private organisations.
- 7.2 Paragraph 5.1 of the report indicates that there are financial penalties for non-registration of £ 5,000 plus £ 500 per working day. The Authority is stage 1 registered but will need to register fully for the scheme by September 30<sup>th</sup> 2010 in order to avoid incurring those charges.
- 7.3 The scheme operates by purchasing carbon allowances at an initial rate (applicable during the first three years of the scheme) of £ 12 per carbon tonne. The Energy team has calculated that the Authority will require 36,885 tonnes giving a cost of £ 442,620, as shown in the table in paragraph 6.4. This amount will be payable on the 1<sup>st</sup> April 2011.
- 7.4 Interim results will be analysed and a recycling payment will be due to the Authority on 1<sup>st</sup> October 2011 based on performance against the estimated consumption of 36,885 tonnes. The possible range of refunded payments is set out in the table in paragraph 6.6 of the report. It can be seen that, in 2011/12 the repayment will be capped at +/- 10% of the original payment. In 2012/13 this will become +/- 20% and in 2013/14 +/- 50%.
- 7.5 It should be recognised that there is a cash-flow issue in that a carbon payment will be payable on 1st April of each year with the re-cycling payment

not coming back until 1st October. The initial payment will need to be financed from available cash reserves. It should also be noted that an element of risk is involved in that, if the Authority does not purchase enough units, then the re-cycling payment will be less than the payment made at the beginning of the year. In that event, the deficit would need to be funded from within the Council's General Fund budget. This issue has been highlighted in reports to Members on the Council's budget and will need to be dealt with as a financial risk in setting the 2011/12 – 2013/14 budget.

- 7.6 The financial outflows for the first three years of the scheme are estimated and based on information held by the Energy Team. They are deemed to be constant for the first three years although payments for the second and third year of the scheme will be revised dependent on actual performance nearer the time. Maximum and minimum payments (based on the estimated payments) are set out in Paragraph 6.6 above although it should be noted that those figures assume that all aspects of the scheme are complied with.
- 7.7 Various financial penalties and risks are associated with this project. These are laid out in Section 11 and will be managed through the arrangements set out in paragraph 11.3. If any penalties are incurred they will be in addition to the figures laid out in Paragraph 6.6 above, but these can be avoided through appropriate management.

## **8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)**

- 8.1. The report informs Cabinet about the CRC Energy Efficiency Scheme made under the Climate Change Act 2008. The detail of the Scheme is contained in the CRC Energy Efficiency Scheme Order 2010, which came into effect in March 2010. As a relevant public body, the Council is required to register as a participant in the Scheme. The Environment Agency administers the scheme in England and may take enforcement action if a person fails to comply with a requirement of the Order.
- 8.2. There will be a need for the Council to take care when awarding contracts to external providers to ensure that they appropriately reflect the Council's energy efficiency objectives. There may be a need to review the Council's procurement procedures to ensure that provision is made for these objectives to be considered.

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

- 9.1 The CRC Energy Efficiency Scheme will contribute to One Tower Hamlets objectives. The reduction of both carbon and energy consumption will benefit all. The proposed approach will ensure that all energy efficiency schemes are identified and maximised

## **10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

10.1 Climate change and energy efficiency are identified as one of four priority action areas in the Government's Sustainable Development Strategy. The introduction of the CRC is a tool to ensure the cost of carbon is factored into the decision making processes of all large organisations.

## 11. RISK MANAGEMENT IMPLICATIONS

11.1 The following risks have been identified to date. These risks will be managed and controlled by an identified risk owner.

<b>Description of Risk Event</b>	<b>Mitigating actions</b>	<b>Status</b>	<b>Financial implications</b>	<b>Current Risk Score</b>
Providing false or misleading information	Data collection procedure in place. Internal Audit procedures as set up by CRC officers working group	Most schools are now compliant	£116,120 to £232,240	4
Failing to report annual data on time	Procedures in place with meter readers and utility company reports	Usage of TEAM Sigma and automatic meter reading kit	£34,029	3
Failing to maintain adequate records	Database in place. Dedicated resource to populate evidence file (Skills match placement)		£145,145	6
Provision of false annual emissions data	As CRC is a self certification scheme the audits will be carried out internally	Publication of non-compliance	£40 per tCO <sub>2</sub> incorrectly reported	12
Failure to surrender allowances corresponding to the reported emissions	Complying with the London Centre of Excellence good practice guidelines	Publication of non-compliance	Fine of £40 in respect of each allowance that should have been obtained and surrendered	12
Failure to pay for allowances on	As above	Publication of non-compliance	Immediate fine equal to	6

time			amount of allowances, worst case scenario £443,000	
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11.3 All risks will be reported to the Carbon Management Board and escalated where appropriate to the Asset Management Board and Development & Renewal DMT. The risk relating to financial penalties has been identified corporately as a strategic risk and is being monitored by the Corporate Management Board.

**12. CRIME AND DISORDER REDUCTION IMPLICATIONS**

12.1 The report has no implications on crime and disorder.

**13. EFFICIENCY STATEMENT**

13.1 Close monitoring of the scheme, through the audit controls, will ensure efficient use of the Councils resources.

**14. APPENDICES**

There are no appendices

**Local Government Act, 1972 Section 100D (As amended)  
List of “Background Papers” used in the preparation of this report**

Brief description of “background papers”	Name and telephone number of holder and address where open to inspection.
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**None**

**N/A**