

SUSTAINABILITY CABINET COMMITTEE

Agenda Item 11

Brighton & Hove City Council

Subject: Carbon Reduction Commitment
Date of Meeting: 13 October 2009
Report of: Director of Strategy & Governance
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Key Decision: No
Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The City Council will be a mandatory participant in carbon trading – under the Carbon Reduction Commitment (CRC) from 2010. This will require the development of a strategic approach to deliver carbon savings from the corporate estate, street lighting and schools.

2. RECOMMENDATIONS:

- 2.1 That the Cabinet Committee agrees that:
- (a) The City Council's Carbon Management Programme Strategy & Implementation Plan is revised to take account of the CRC, as well as Display Energy Certificates.
 - (b) Further work is done to establish how schools will participate fully in the CRC.
 - (c) The budget planning process will need to identify the required funding to purchase the CO2 emissions allowances for 2011/12.
 - (d) The officer Carbon Trading Group explores the potential to introduce internal carbon trading for directorates for 2010/11 onwards.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 A low carbon Brighton & Hove is the City Council's top new sustainability priority. This is in line with the first of its headline priorities, Protect the Environment While Growing the Economy, and on carbon, the council will be leading by example.
- 3.2 The Climate Change Act 2008 contains legally binding emissions reduction targets: the Government has committed the UK to deliver a 26% reduction in CO2 emissions by 2020. In the longer term the aspiration is to cut greenhouse gases by at least 80% by 2050.

- 3.3 In May 2007 the Government announced a number of new initiatives in the Energy White Paper, including a decision to implement the Carbon Reduction Commitment. This is a mandatory emissions trading scheme for large commercial and public sector organisations, including large local authorities. From 2010 the City Council will be a mandatory participant.
- 3.4 The aim of CRC is to promote energy efficiency and help reduce carbon emissions which can save organisations money. The scheme has been designed to generate a shift in awareness in large organisations especially at senior level, and to drive changes in behaviour and infrastructure.
- 3.5 All energy other than transport fuels will be covered, such as electricity, gas, fuel and oil. All Local Education Authorities are required to report on schools and include them in the scheme. Currently the scheme excludes Fleet/transport. Housing is within the scope of the scheme where the council is the energy bill recipient.
- 3.6 It is estimated that the total benefit to all participants will be around £1 billion by 2020. This will result from energy efficiency measures encouraged by this scheme. Revenue recycled back to participants from the sale of allowances each year will also include a bonus for the best performers. In addition to financial incentives, the scheme will provide a reputational incentive as well and penalties for the worst performers. Participants will be ranked according to their performance in a league table. This will then be made available for public scrutiny.
- 3.7 An initial Carbon Footprint Report is required in March 2011 for the year April 2010 to March 2011. B&HCC should be in a good position to produce this footprint as we are already monitoring energy use for civic buildings, including schools, as part of the Carbon Management Programme for which we produce an annual carbon footprint. But there have been problems recently in gathering the data in a timely and thorough way (see Risk section 5.6).
- 3.8 As a result of the imminent completion of our programme of Display Energy Certificates for all properties in the council portfolio, we are in a position to identify where to implement the most beneficial energy efficiency measures to reduce our carbon emissions.
- 3.9 The council carbon emissions falling under CRC would mean it having to purchase just over £300,000 worth of credits per year, with 10% (circa £30,000 at risk) in the first year (see Appendix 1). Participants will pay in April 2011 for allowances to cover both the actual 2010/11 emissions and forecast 2011/12 emissions. From April 2013, allowances will be allocated through auctions with a diminishing number of credits available over time. There are also likely to be assisted certification costs and potentially some consultancy cost for pre-assessment but these have not yet been quantified.

- 3.10 Early Action Metrics are being actively explored to enhance the council's initial position in the league table, including the Carbon Trust Standard, which credits the authority for emissions reduction measures already undertaken; and the introduction of automatic meter reading, which is being explored for the whole council property portfolio and would need significant investment, so will be the subject of a separate report. A timeline setting out the initial stages of the CRC scheme is at Appendix 2.
- 3.11 An officer Carbon Trading Group has been established to co-ordinate the Council's responses and actions, with close connections to Cabinet Members (and their deputies) and the Sustainability Cabinet Committee. The actions include data gathering, cross organisation working, finance officer and legal services engagement, schools engagement, reporting, buying and surrendering allowances.
- 3.12 An internal carbon accounting scheme would penalise directorates that fail to cut their carbon emissions and reward those that do. Potentially, based on their recent performance, directorates would be assigned an annual carbon budget for 2010/11 and "fined" a fixed amount per tonne if they exceed this when carbon footprinting calculations are completed after the financial year end. Fines would be deducted from the directorate's budget in the following year (i.e. in mid-2011 for the first year) and credits added. This would provide a strong financial incentive for directorates to cut their emissions.

4. CONSULTATION

- 4.1 Performance, Street Lighting, Energy, CYPT, Housing, and Property Services have been consulted.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 Increasing energy and fuel costs together with rising consumption levels create budget pressures for the councils and schools. The introduction of a Carbon Reduction Commitment (CRC) may reduce both emissions and usage and consequently assist with financial budget pressures for both the council and schools. Funding will need to be identified in 2011/12 to purchase the carbon trading credits for the years 2010/11 and 2011/12 at an estimated sum of £600,000 and this will form part of the Medium Term Financial Strategy. The revenue raised from the sale of carbon allowances will be recycled back to participants in the CRC after a six-month period (October 2011) and trading of credits will commence after then. However, the amount of money paid back will vary depending on the performance of the organisation, as an incentive to cut emissions. Organisations that are ranked highly will receive a bonus payment and organisations ranked lower will receive a penalty. In year one the maximum bonus or penalty is 10% which means a potential risk of £60,000 to the council.
- 5.2 From 2013 the capped phase of the CRC will start with the Government capping the number of allowances available and the fixed quantity available will be auctioned. This will make the price variable and could result in significantly higher prices.

- 5.3 The council has an existing Carbon Management Programme reserve which was funded through £200,000 from the Carbon Trust and £200,000 council match funding. This reserve is able to investment in energy reduction measures and the savings generated are reinvested back into the Carbon Management Programme reserve to fund future initiatives. The fund currently stands at £309,000 although this can fluctuate depending upon demand and financial savings that are reinvested. Additional funding may also be required through the Capital Programme to meet any new capital investment associated with carbon reduction schemes and this will need to be addressed through the Medium Term Financial Strategy.
- 5.4 Additional resources may be required to fund the assisted certification costs and potential consultancy cost for pre-assessment and to continue to fund the Schools Management Officer.

Finance Officer Consulted: Rob Allen

Date: 29/09/09

Legal Implications:

- 5.5 As the report makes clear, the council's participation in the CRC – currently scheduled to start in April 2010 – will be a statutory requirement.
- 5.6 Details of the scheme will be set out in the Carbon Reduction Commitment Order 2010, made under Part 3 of the Climate Change Act 2008. A draft copy was issued in March 2009 for consultation (now closed).

Lawyer Consulted:

Oliver Dixon

Date: 08/09/09

Equalities Implications:

- 5.7 None anticipated.

Sustainability Implications:

- 5.8 Emissions trading is a tool for incentivising improved performance and enhancing sustainability.

Crime & Disorder Implications:

- 5.9 None anticipated.

Risk and Opportunity Management Implications:

- 5.10 The inclusion of schools is problematic because of their quasi-independent status and finances. This is currently being mitigated through the work of a Schools Carbon Management Officer working to the Energy Manager, but this post only has funding for a year and a business case to continue this post needs to be developed and approved.

- 5.11 The introduction of internal carbon accounting might be practically difficult, with a potentially significant administrative burden, so this will need to be explored accordingly. It may also prove controversial and unpopular with some directors and senior managers as most of the measures now being introduced to cut emissions are led corporately by Property Services and only behaviour change (e.g. turning off lights and computers, reducing business mileage etc.) can be done directly by directorates.

Corporate / Citywide Implications

- 5.12 The council clearly wants to cut emissions fast and efficiently, but there are also reputational issues relating to where we appear in the league table of emissions. The council wants to lead by example, so it wants to start well. Private sector “competitors” in the league table, e.g. supermarkets, are investing very heavily in energy management, so will start higher up than councils.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 The council has no option about whether or not to participate in the CRC.
- 6.2 A dummy trading scheme could be established rather than real internal carbon trading, to see what the implications of trading would be for directorates, and potentially to prepare them for full trading in the future. The council adopted this approach corporately by participating in the “Carbon Trading Councils” dummy carbon trading scheme last financial year and this helped to develop officers’ understanding of the processes and issues. However, this could also be resource intensive to introduce, but potentially without real emission reduction benefits.
- 6.3 Alternatively a pilot scheme could be introduced in one directorate or service area. This would still require some additional resourcing and the selection process might prove controversial.
- 6.4 The development of strong business cases for the appointment of an Energy Data Officer and for the Schools Carbon management Officer job to be made permanent would see this work better resourced.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 There are important, corporate implications of the CRC to the council: mandatory, fines for non compliance, initial costs, budget uncertainty and impacts, schools inclusion, reputation.
- 7.2 Councillor Janio has requested that officers investigate internal carbon trading mechanisms.

SUPPORTING DOCUMENTATION

Appendices:

1. The Carbon Reduction Commitment – a summary by the London Energy Project.
2. The Carbon Reduction Commitment – Timeline (Defra).

Documents in Members' Rooms

None

Background information

1. The CRC Network: <http://www.controlyourcarbon.co.uk/CRC/>
2. The CRC Toolkit and guide – devised for London Boroughs but available for use by the city council and useful: http://www.haringey.gov.uk/orange_crc_downloads