

Wiltshire Council

Environment Select Committee

2 March 2011

Carbon Reduction Commitment Energy Efficiency Scheme

Executive Summary

This report provides an outline of the Carbon Reduction Commitment Energy Efficiency Scheme and what it means for Wiltshire Council.

Proposal

That the Committee notes the information in this report.

Reason for Proposal

The media have recently run a number of stories about the Council having to pay a £600,000 carbon 'tax'. The Chairman of the Committee has requested more information and clarification about this issue.

MARK BODEN

Corporate Director

Department of Neighbourhood and Planning

Carbon Reduction Commitment Energy Efficiency Scheme

Purpose of Report

1. To clarify how the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) works and what the implications are for Wiltshire Council.

Background

2. In January 2011 a number of stories were published in the media about the Council being liable for a £600,000 'tax' or 'fine'. These related to the Council's liability under the CRC.
3. The CRC is a mandatory scheme to improve energy efficiency and therefore cut CO₂ emissions in large public and private sector organisations. These organisations are responsible for around 10% of the UK's CO₂ emissions. The scheme features a range of reputational, behavioural and financial drivers which aim to encourage organisations to develop energy management strategies that promote a better understanding of and reduce energy usage. The Council's emissions equate to less than 2% of Wiltshire's overall carbon footprint.
4. On 6 July 2010, the Committee received a report outlining progress against climate change objectives which set out the following information about the original CRC scheme:
 - (i) The CRC was launched nationally in April 2010. For the first time, there is a real financial cost to our carbon emissions. Wiltshire Council is obliged by law to participate and must ensure it can fund the cost of annual carbon emissions.
 - (ii) Wiltshire Council's carbon emissions come from buildings, transport and street lighting, although transport emissions are not included in the CRC. Schools buildings in Wiltshire contribute roughly 40% of the annual carbon emissions that are included in the CRC.
 - (iii) The Council will need to purchase about £600,000 of allowances each year to cover all its emissions. If we perform poorly, in 3 year's time we stand to lose up to 30% of that value in penalties. The amount at stake will increase further as the scheme matures. For the first year the Council has made the decision to take responsibility for the cost of school carbon emissions. In the future, this cost could be passed on to schools.

5. On 25 January 2011, Cabinet approved the Council's first Energy, Change and Opportunity (ECO) Strategy. The ECO Strategy is a framework strategy which sets out the Council's ambitions for reducing its carbon emissions as an organisation, for leading the county's low carbon transition and preparing for unavoidable climate change. As a framework strategy it is underpinned by and linked to other council strategies to ensure our objectives are embedded across the entire organisation. It will be supplemented by detailed action plans to set out more specifically how we are going to deliver our climate change ambitions, including:
- Carbon Management Plan for the Council's emissions
 - Climate Change Adaptation Plan for Wiltshire
 - Low Carbon Transition Plan for Wiltshire
 - Renewable Energy Action Plan for Wiltshire

Main Considerations for the Committee

6. In autumn 2010, the CRC scheme was amended as part of the Comprehensive Spending Review. Rather than operating as a trading scheme as originally intended, with carbon allowances being 'recycled' to participants (see paragraph 4), all participants will now have to pay the Treasury for every tonne of CO₂ emitted, making it more akin to a 'tax' on carbon. The effect of this change is that the projected cost to the Council of the CRC in 2011/12 has increased tenfold from £60,000 to £600,000.
7. At the time of writing, the proposed changes are still being finalised. Key features are:
- Carbon emissions from all Council buildings (including schools) and from street lights will be included in the scheme. Emissions from transport will be excluded. The CRC footprint for Wiltshire Council in 2010/11 is projected to be 50,000 tonnes CO₂.
 - The first compliance year when the Council will have to pay for its carbon emissions is April 2010- March 2011.
 - Carbon allowances to cover emissions will need to be purchased at a fixed cost per tonne during phase 1 (likely to be £12 per tonne – to be confirmed in the Government's budget announcement). Phase 1 will run from 2011/12 to 2013/14. This amounts to a cost of £600,000 per year for Wiltshire Council. The cost of carbon is expected to rise over time, in a similar way to Landfill Tax – see table 1 below.
 - A league table will be published in October every year, starting in 2011, showing the relative performance of all organisations taking part in the scheme nationally. Councils will be competing against large companies such as national supermarket chains. Good performance will be achieved through demonstrating a year on year reduction in emissions. In the first league table to be published in October 2011. A proxy measure known as the 'early action metric' will be used to calculate

performance, based on coverage of council emissions by advanced metering (AMR, also known as smart meters).

- In January 2011, the Government announced a further round of consultation on the CRC (to close on 11 March 2011) in order to simplify the scheme for Phase 2.

Table 1 summarises projected CRC costs that have been built into the Council's Financial Plan which was adopted by Cabinet on 15 January 2011:

	2011/12	2012/13	2013/14	2014/15
Estimated cost	£600,000	£600,000	£700,000	£800,000

8. The Council's main mechanism for reducing its liabilities under the CRC is through investing in energy efficiency projects. During 2010/11, the Council had a total of £1.2 million available for energy efficiency projects, of which £0.7 million was in the form of a 0% loan from Salix finance and £0.5 million was capital allocation.
9. The Council is currently finalising an action plan for reducing its carbon footprint, known as the Carbon Management Plan. This is in final consultation form with the Energy, Change and Opportunity Board and will be published online as part of Climate Change Week at the end of March. The Plan will ensure that the responsibility for carbon reduction is embedded across all services in the Council.
10. The Council is also investing in the installation of smart meters in Council buildings and schools. This will enable accurate tracking of gas and electricity consumption and improve the Council's position in the 2011 CRC league table as well as helping to identify poorly performing properties.

Environmental and Climate Change Considerations

11. The aim of the ECO team is to limit carbon emissions from the Council and from the county overall, which will have a positive impact on the environment.

Equality and Diversity Impact of the Proposal

12. The work that the Council is doing to reduce fuel poverty benefits disadvantaged groups in the community.

Financial Implications

13. The Council's Financial Plan includes provision for CRC by accruing for this purpose £600,000 in 2011/12 and 2012/13; £700,000 in 2013/14 and £800,000 in 2014/15. As the price of carbon has yet to be confirmed, all projections are subject to revision. The first payment will be due in June 2012 to cover 2011/12 emissions retrospectively.
14. In order to reduce the Council's carbon footprint, and therefore our liability under CRC, £500,000 capital has been set aside for energy efficiency projects in each of 2011/12 and 2012/13 as well as £500,000 revenue over the next four financial years. £500,000 capital was allocated in 2010/11. This amounts to a total investment over five years of £3.5 million for energy efficiency. This needs to be set against the context of the Council's annual spend of £14 million on energy and transport in 2009/10.

Legal Implications

15. The Council is legally required to take part in the Carbon Reduction Commitment trading scheme.

Conclusion

16. The revision of the Carbon Reduction Commitment Scheme in the 2010 Comprehensive Spending Review has significantly increased the cost of carbon emissions to the Council. This makes it necessary to invest in energy efficiency measures which will reduce the Council's carbon footprint, and a total of £3.5 million has been allocated for this purpose over five years in the Financial Plan.

MARK BODEN

Corporate Director
Department of Neighbourhood and Planning

Report Author:
Ariane Crampton
Head of Climate Change

The following unpublished documents have been relied on in the preparation of this Report

1. Updates to Environment Select Committee 1 September 2009, 3 November 2009, 2 March 2010 and 6 July 2010
2. Wiltshire Council Energy, Change and Opportunity Strategy 2011-2020:
<http://cms.wiltshire.gov.uk/mqConvert2PDF.aspx?ID=13581>
3. Draft Carbon Management Plan for Wiltshire Council February 2011 (available on request)

Appendices:

None