



Leicester
City Council

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All

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Cabinet

2nd August 2010

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

Report of the Director of Regeneration, Highways and Transport

1. PURPOSE OF REPORT

The purpose of this report is to inform Cabinet Briefing about Leicester City Council's preparations for the CRC Energy Efficiency Scheme, including an outline of financial implications and the nomination of key roles for implementation of the scheme.

2. Summary

- 2.1 The Carbon Reduction Commitment (CRC) is a mandatory emissions trading scheme that started in April 2010. Leicester City Council is obliged to take part in the scheme, to monitor emissions and purchase allowances sold by the Government for each tonne of CO₂ we emit from energy use (excluding transport fuels).
- 2.2 The City Council must register for the CRC scheme by 30th September 2010 and will need to nominate officers to fulfill key roles and responsibilities within the scheme.
- 2.3 The first sale of allowances in April 2011 will require participants to purchase allowances for the year ahead. Calculations indicate that the cost of purchasing allowances for Leicester City Council is approximately £721,435 based on qualifying CO₂ emissions of 60,119 tonnes.
- 2.4.1 The CRC uses a bonus and penalty scheme as part of the incentive for organisations to reduce their levels of emissions. Any bonus or penalty administered to an organisation will be based on their position in the league tables.
- 2.5 The amount of any penalty will increase by 10% (maximum) per annum from 2012 for organisations ranked at the lower end of the national performance league table. However, Leicester will benefit from certain "early action metrics" in the introductory phase that may help to improve our position as a result of the early work to install Automatic Meter Reading (AMR) technology in our main Council buildings.

- 2.6 A CRC Management Group has been established to oversee the implementation of the scheme and consider how rewards and penalties could be passed on to services or individual cost centres as an incentive to improve performance.

3. RECOMMENDATIONS (OR OPTIONS)

The recommendations are:

- 3.1 Note the implications of the Government's Carbon Reduction commitment energy efficiency scheme.
- 3.2 Note the nomination of key roles in the CRC (see appendix 1) and agree that the Strategic Director for Reducing Carbon Footprint has the responsibility as Lead Officer for implementing CRC for the Council.
- 3.3 Note the funding requirement to purchase annual carbon allowances of approximately £0.72m from 2011/12 and note the potential penalty payments.
- 3.4 That further work be carried out on how to deal with the financial implications of any penalty or bonus payments, in particular how to deal with Schools and that this be agreed as part of the 2011/12 budget process.

4. REPORT

- 4.1 The Carbon Reduction Commitment (CRC) is a mandatory emissions trading scheme that aims to improve energy efficiency and reduce the amount of Carbon Dioxide (CO₂) emitted from large organizations in the UK. Leicester City Council is obliged to take part in the scheme, to monitor emissions and purchase allowances sold by the Government for each tonne of CO₂ we emit from energy use (excluding transport fuels).
- 4.2 A previous report to the Priority Board, in October 2009, outlined the CRC scheme requirements and the emerging changes being made following the Government consultation. The recommendation was to establish a CRC Management Group to oversee implementation of the scheme and to allocate the various tasks and roles to ensure compliance when final guidance was available.
- 4.3 The CRC Management Group includes officers from Finance, Property, the Environment Team, Energy Services and Schools.
- 4.4 The Footprint year (baseline) for calculating CRC started in April 2010 and runs to March 2011. However, the Council's carbon footprint has been calculated for the purpose of this report based on data used in reporting under National Performance Indicator 185. The CRC calculation uses a subset of the NI 185 data and gives an estimate of **60,119.547 tonnes CO₂** as our current emissions liability.
- 4.5 The cost of purchasing emissions allowances in the CRC introductory phase (up to 2013) is fixed at £12 per tonne of CO₂. The first Government sale is in April 2011 when organizations will have to purchase allowances to cover their forecast for 2011/12. The estimated cost to Leicester City Council, for purchasing allowances in April 2011, is **£721,435**.

4.6 The next steps requires to register as a CRC participant

- 4.6.1 The Council must register via an online CRC Registry between 1st April 2010 and 30th September 2010. Failure to register by the deadline will result in a £5,000 fine.
- 4.6.2 All participants will have to pay an initial registration charge of £950 and an annual subsistence charge of £1,290 to cover the costs associated with the individual account.
- 4.6.3 The Council is required to nominate a number of individuals to act as points of contact. There is a validation process to make sure that they are authorised to act for the authority and this process may take up to one month.
- 4.6.4 The key individuals to be nominated in the registration process are:
- a) Registrant – this person has restricted access to CRC registry
 - b) Senior Officer contact – must be a Director or equivalent status, who exercises management control, to act for the organisation. They will act on enforcement and civil penalty notices, authorise the primary and secondary contacts and the account representatives. The Senior Officer will receive notification of the purchase, sale and surrender of allowances by account representatives. They will also receive confirmation of submission of emissions reports by the organisation, receive notification of the publication of the league table and confirmation of revenue recycling payments.
 - c) the Primary and Secondary Contacts – these are the people that Environment Agency will be in contact with on a regular (day to day) basis. These contacts will have level 1 access to the system and submit returns / reports, view account and submit change related requests. Only the primary or secondary contact can complete the registration process for the organisation.
 - d) the Invoice Contact (either a person or a Department) – is sent the invoices for the annual subsistence charge.
 - e) the Account Representatives (1,2 or 3) – These contacts will require digital certificates, at a level 2 Government Gateway authentication, to be able to access the compliance account. This level of clearance involves a personal identity check and we need to allow at least 4 weeks from point of nomination before enrolment is complete and access to account is granted.
- 4.6.5 The Council must submit detailed information about the organisation and its structure along with a list of our half hourly meters and half hourly electricity supplies.
- 4.7 The City Council needs monitor its footprint throughout 2010/11 (baseline year) and purchase allowances in April 2011. The first annual emissions report is due by the last working day of July 2011, this also the deadline for submission of the footprint report. An evidence pack will be required to be produced and submitted in 2012.

5. How Performance will be measured

- 5.1 Performance under CRC will be measured and ranked in league tables. The league table position is designed to incorporate reputational incentives in CRC as well as provide the basis for the financial incentives.

5.2 Organisations that have taken early action to reduce carbon emissions on a voluntary basis, before 2010, are rewarded through “Early Action Metrics”.

There are 2 early action metrics that will influence performance league tables in the introductory phase:

- i) Carbon Trust Standard (50%)
- ii) Voluntary Automatic Meter Reading (50%)

The weighting of these metrics is gradually reduced from 100% in the first year to 40% in the second year and 20% in the third year of operation. At the end of the third year, the early action metric will be removed from the league table calculation

5.2.1 The Carbon Trust Standard certifies that an organisation is genuinely reducing its carbon footprint and is able to demonstrate year on year reductions in its emissions. Leicester City Council is not currently able to achieve this standard due to a lack of sufficient progress up to 2010/11.

5.2.2 Automatic Meter Reading equipment is already installed in approx 60% of Leicester City Council buildings and, therefore, we will receive a 30% early action weighting in the first year.

5.3 Performance from 2012 is assessed on the changes in absolute emissions (the Absolute Metric) compared with a five year rolling average and a separate indicator (the Growth Metric) that measures a change in emissions levels relative to turnover or revenue expenditure .

Table: Example only

	Year 1 (Oct' 2011)	Year 2 (Oct' 2012)	Year 3 (Oct' 2013)
Early Action Metric	100%	40%	20%
Absolute Metric	0%	55%	70%
Growth Metric	0%	5%	10%

6. Purchase of allowances and Revenue recycling payments

6.1 During the introductory phase (2010 to 2013) an unlimited number of allowances will be sold at a fixed price of £12 per tonne of CO₂. The first Government sale is in April 2011 when organisations will have to purchase allowances to cover the forecast for 2011/12.

6.2 From 2013/14 the number of allowances will be limited by the Government and sold by auction. Outside of these Government sales or auctions, allowances can be bought and sold by trading with others on the secondary market. CRC trading activity can only be carried out by the Council’s nominated account representatives.

6.3 All revenue raised from the sale of allowances every April is returned to participants in the form of a recycling payment. The first payment will follow the April 2011 fixed price sale and will be in proportion to the 2010/11 emissions, adjusted by a bonus or penalty factor linked to performance in the league table. Each revenue recycling payment will be made approximately six months after the end of each sale.

7. Bonus and Penalties

- 7.1 During the second year of CRC the margins for bonus and penalty will increase from 10% to 20%, with 30% being applied to the third year and so on. By the fifth year, all organisations in the top half of the table will receive a bonus, whereas all the organisations in the bottom half will receive a penalty.
- 7.2 Following the initial five-year period, the bonus and penalty has yet to be established. However, it is expected that the government will continue to take advice from the climate change committee and has not ruled out a 100% bonus and penalty scheme. As such, organisations at the bottom of the league table would not receive any of their allowance payments back.

8. Performance issues and apportionment of financial incentives

- 8.1 The Council's ongoing Energy in Buildings Survey and investment Programme will help to drive down emissions and limit liability under the CRC from 2011/12 onwards. However, the early works to Leisure Centres (which are already demonstrating some reductions) and initiatives such as the 10:10 campaign, will have the unfortunate effect of reducing the emissions baseline against which our future performance will be measured. (the CRC baseline year is 2010/11).
- 8.2 Incentives are required to make individual services and building users responsible for improving performance under the CRC. It is, therefore, proposed that any rewards and penalties imposed on the Council are passed on to cost centres, in order to effectively engage and motivate services to reduce their carbon footprint.
- 8.3 Schools represent approximately 50% of all Leicester City Council's qualifying CO₂ emissions and the CRC Management Group have proposed that a proportion of any rewards or penalties under CRC are passed on, as part of a pilot initiative to establish league tables within the organisation and test the apportionment methodology, before extending the arrangement to other services. This is in line with indications from the previous Government that regulations would be made such that any loss attributable to schools could be charged to the overall Schools Budget as a block item or charged to individual schools, and that similarly Councils would be encouraged to add to the Schools Budget any gains attributable to schools. Academies would be included alongside schools for the CRC scheme purposes.

9. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

- 9.1 The immediate **financial implications** of the scheme are summarised below:

	2010/11	2011/12	2012/13	2013/14	2014/15	
1	Purchase in April of allowances for emissions in current year, based on current emissions of 60k tonnes at £12/tonne					
	LCC - Street lighting (21.5%)	£155k	£155k	£155k	£155k	£155k
	LCC - other sites (37.5%)	£270k	£270k	£270k	£270k	£270k
	Schools (41%)	£296k	£296k	£296k	£296k	£296k
	Total	£721k	£721k	£721k	£721k	£721k
2	Lost interest over period April - October at 5%	£18k	£18k	£18k	£18k	£18k
3	Performance table weightings:					
i	Early action metering	100%	40%	20%	0%	0%
ii	Absolute emission growth	0%	45%	60%	75%	75%
iii	Relative emission growth (tonnes per £ of revenue expenditure)	0%	15%	20%	25%	25%
4	% Penalty charge/bonus payment based on performance league table	10%	20%	30%	40%	50%
5	Worse case total penalty charge based on difference between allowance acquisition cost and recycling payment	£72k	£144k	£216k	£288k	£361k
6	Registration/subsistence fees	£2k	£1.2k	£1.2k	£1.2k	£1.2k
7	Non compliance costs:					
i	Failure to provide annual report	£5k				
ii	Inaccurate reporting/inadequate records	£40/tonne of carbon				

9.2 From 2011/12 there will be annual uncertainty over the amount of the recycling payment which is received in the October following the acquisition of allowances in April. The recycling payment is based on our relative performance against all the other scheme participants in the preceding year. Given that the scheme will include over 6,000 participants from both the public and private sector it is impossible to predict at this stage where any one participant will end up in the performance league table.

- 9.3 This means that the Council is exposed to a penalty charge or bonus payment within the range +/- 10% in 2011/12 increasing by 10% thereafter to a maximum of 50% by 2014/15. So for example the maximum penalty in 2011/12 could be 10% of the allowance bought in that year ie 10% of £0.72m = £72k. .
- 9.4 There is of course an additional cost of 6 month's worth of lost interest on the funds required to finance the allowances prior to receiving the recycling payment.
- 9.5 There are also additional administration costs of registration and the staff time to process the annual report. It is assumed at this stage that the registration costs and staff time required to administer this scheme can be contained within the Energy and Environment teams' existing budgets.
- 9.7 In order to improve our league table performance and reduce our overall emissions the Council will have a range of possible carbon abatement projects which it could implement to reduce energy costs, save the cost of purchasing allowances and increase our recycling payment. Of course this is the whole point of the scheme, however we will need to determine the cost of implementing these schemes in terms of pounds per tonne of carbon (the marginal abatement cost) in order to determine whether or not it is cheaper to buy allowances or go ahead with the scheme. Previously of course we were assessing abatement projects in terms of whether or not they could generate overall savings. We are now in a situation where many more projects will be viable even if they do not generate overall savings because the cost of implementing the scheme may well be less than having to pay for carbon allowances and worsening our league table performance.
- 9.6 The carbon allowance price remains fixed at £12/tonne until the start of the capped phase in April 2013. The government will set a cap on the total emissions for each capped phase of the scheme using information obtained during the introductory phase, the views of the Committee on Climate Change and the UK's overall carbon emission targets.
- 9.7 From 2013 the Council will need to bid for allowances at a range of different prices in an auction process. The allowance rate set (the clearing price) will be based on the total cap in tonnes and the aggregated demand for allowances from all scheme participants at the prices they have bid at. Allowances will then be allocated based on the number of allowances that the Council has bid for at the clearing price. The Council will therefore need to use the marginal abatement costs in order to determine its bid prices.
- 9.8 It is likely that the Council will either buy too many or too few allowances because of emission forecasting errors and will then have to purchase or sell allowances in the secondary allowance market, the price of which will be different to the clearing price.
- 9.9 Further work needs to be done in terms of our auction strategy when more information becomes available.
- 9.10 Further discussion and work needs to be done in terms of whether or how to provide financial incentives/penalties to user departments and Schools to promote behaviour

which will reduce energy usage and therefore emissions. We will also need to be in a position to calculate the marginal abatement costs of the various abatement projects which will determine the rate at which we bid for allowances in the future.

- 9.11 It is recommended that the financial implications are dealt with in as part of the 2011/12 budget process.

Martin Judson, Financial Services

Legal Implications

- 9.12 From April 2010, the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) - a new mandatory cap and trade scheme for carbon dioxide (CO₂) emissions - will come into force in the UK. The new scheme essentially imposes a tax on the CO₂ emissions of UK properties in both the commercial and public sectors. Although there are no direct legal implications arising from this report, the CRC Energy Efficiency Scheme is a legal obligation for Leicester City Council to undertake and large fines are applicable for non-compliance.

Dina Nathwani, Solicitor – Legal Services

Environmental Implications

- 9.13 The CRC, as outlined in this report, has the potential to make a significant impact on progress towards the Council's climate change targets by providing incentives for action.

Helen Lansdown, Senior Environmental Consultant - Sustainable Procurement

10. OTHER IMPLICATIONS

OTHER IMPLICATIONS	YES/NO	Paragraph references within the report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	Yes	The report as a whole has implications
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

11. Background Papers – Local Government Act 1972

Carbon Reduction Commitment Report to Corporate Directors Board (November 2008)
Carbon Reduction Commitment Update - Report to Priority Board (October 2009)

12. Consultations

Martin Judson (Finance)
Colin Sharpe (CYPS)
Chetna Patel – Liburd (TLE)
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Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)

APPENDIX 1 – Nomination of Key Roles

The Officers nominated to key roles are:

Registrant – Prakash Patel (Team Leader – Energy Management)

Primary and secondary contacts – Nick Morris (Head of Energy Services) and Martin Judson (Head of Resources)

Senior Officer – Alistair Reid (Strategic Director). Whilst all services are responsible for CRC it is proposed that the Strategic Director of Reducing our Carbon Footprint is best placed to lead on its implementation and that the current membership of the CRC Management Group would have operational responsibility for the scheme.

Invoice contact - Prakash Patel (Energy Management Team)

Account representatives (1,2 & 3) - Martin Judson / Nick Morris / another to be agreed.

APPENDIX 2 – CRC Timescales

(see copy of timescales attached)